

# CALIFORNIA STATE AUDITOR

## Oversight Hearing

Joint Legislative Audit Committee  
Room 447, State Capitol  
Sacramento, California

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Creating Efficiencies in State Government: A Look at the State Auditor's "Top 10" and Potential Budget Savings by Implementing State Auditor Recommendations

Presentation by  
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Independent NONPARTISAN  
TRANSPARENT Accountability



# CALIFORNIA STATE AUDITOR

Elaine M. Howle, State Auditor

## BUREAU OF STATE AUDITS

In my testimony today, I will provide a brief perspective on how my office serves as a resource for legislative oversight including the budget subcommittee process, an overview of the types of audits we conduct, and the reports my office publishes and distributes. In addition, I will explain the approach my office took in responding to the Governor's request for our recommendations, based on our prior work, for cutting government waste and increasing efficiencies. I will discuss some of the 14 recommendations we provided the Governor on March 9, 2011. I will also share some information from our special report to the Legislature regarding the status of recommendations made to auditees during the last two years, and will provide some examples of recommendations that departments have implemented.

Specifically, with regards to the recommendations made to the Governor, I will focus on those related to the Department of Health Care Services and to the Department of General Services as follows:

- Resolve Disputed Drug Rebates
- Eliminate Optional Drug Classifications
- Revise Pharmaceutical Reimbursement Method
- Modify State Leases as Necessary
- Justify State Vehicle Use
- Reduce the State Motor Pool
- Leverage State Purchasing Power
- Adjust Regulatory Fees
- Adjust Fines and Penalties

With regard to status of certain recommendations made to auditees, I will focus on the following:

- Department of Public Health's Health Facilities Citation Accounts
- Department of Public Health's Every Woman Counts Program
- Department of Social Services' CalWORKs and Food Stamp Programs
- State Mandates—State Controller's Office

To facilitate my discussion today, I have included in this document, excerpts from my letter with Recommendations to the Governor and the special report to the Legislature titled *Implementation of State Auditor's Recommendations Audits Released in January 2009 Through December 2010*, (March 2011, Report 2011-406) that relate to those departments listed above. The special report to the Legislature summarizes the major findings and recommendations from audit and investigative reports that my office issued from January 2009 through December 2010. The purpose of this report is to identify what actions, if any, these auditees have taken in response to our findings and recommendations. Additionally, this report includes a table with the monetary value associated with findings and recommendations we made in audits or investigations. This document also includes a copy of the table.



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## **Excerpts from the California State Auditor's Letter**

### **Cutting Government Waste and Increasing Efficiency Recommendations to the Governor**

**March 9, 2011**

## Resolve Disputed Drug Rebates

### RECOMMENDATION

Ensure the Department of Health Care Services (Health Services) eliminates or substantially reduces its backlog of disputed rebates with drug manufacturers.

### State Auditor's Work Supporting This Recommendation

Health Services administers the State's Medi-Cal program and in doing so it purchases drugs for Medi-Cal beneficiaries—generally low-income individuals and families who receive public assistance or lack health coverage. The State and federal governments jointly finance health care services provided under the Medi-Cal program, including optional services such as prescription drugs.

In addition to receiving rebates for the purchase of prescription drugs, state law requires Health Services to contract with drug manufacturers to obtain high-volume discount prices. Manufacturers can dispute the rebate amount Health Services invoices for federal and applicable state supplemental rebates. State law also requires Health Services and manufacturers to make every effort to resolve these disputes within 90 days of the manufacturer notifying Health Services of a dispute. In our audit report issued in April 2003 titled *Department of Health Services: Its Efforts to Further Reduce Prescription Drug Costs Have Been Hindered by Its Inability to Hire More Pharmacists and Its Lack of Aggressiveness in Pursuing Available Cost-Saving Measures* (Report 2002-118), Health Services had just begun to work with manufacturers to reconcile \$216 million in disputed rebates accumulating from January 1991 to September 2001.

In our follow-up report issued in June 2007 titled *Pharmaceuticals Follow-Up: State Departments That Purchase Prescription Drugs Have Not Yet Fully Implemented Recommendations to Further Refine Their Cost Savings Strategies* (Report 2007-501), Health Services indicated that it had reduced the amount of disputed rebates we previously reported by \$63 million or down to \$153 million. However, the total amount of the disputed rebates from January 2002 to December 2006 had grown to about \$270 million, for a combined total of \$423 million in disputed rebates. At the time, Health Services attributed the increasing backlog to the difficulty in retaining personnel.

The U.S. Department of Health and Human Services, Office of Inspector General, has also reviewed California's drug rebate program as part of a nationwide series of reviews. In one of its reports dated February 27, 2008, the federal agency reported that our State Legislature directed Health Services to resolve the older disputed rebates and convert 11 limited-term positions to seven permanent positions.

### Potential Benefit

The State may generate a substantial amount of revenue by resolving the backlog of disputed rebates. For example, in 2004 the former deputy director of medical care services indicated that the State managed to recover 25 cents for every disputed dollar. Health Services recently reported that its backlog for the period of January 1991 through December 2006 totaled \$285 million. However, we do not have the backlog data to review for the period January 2007 through December 2010.

### Action Needed

The Governor can implement this recommendation by issuing an Executive Order.

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## Eliminate Optional Drug Classifications

### RECOMMENDATION

Discontinue all or a portion of the remaining optional drug therapeutic classifications for the Medi-Cal program.

### State Auditor's Work Supporting This Recommendation

The Department of Health Care Services (Health Services) administers the State's Medi-Cal program and in doing so it purchases drugs for Medi-Cal beneficiaries—generally low-income individuals and families who receive public assistance or lack health coverage. The State and federal governments jointly finance health care services provided under the Medi-Cal program, including optional services such as prescription drugs. Health Services made a policy decision to include the following optional classes of drugs as part of its pharmacy benefit: anorexia, weight loss, or weight gain drugs; drugs for symptomatic relief of cough or colds; smoking-cessation drugs; barbiturates; and benzodiazepines, which include antianxiety drugs.

In our audit report issued in April 2003 titled *Department of Health Services: Its Efforts to Further Reduce Prescription Drug Costs Have Been Hindered by Its Inability to Hire More Pharmacists and Its Lack of Aggressiveness in Pursuing Available Cost-Saving Measures* (Report 2002-118), Health Services' data showed that had it excluded the optional classes of drugs as part of its pharmacy benefit, it might have saved the State nearly \$80 million during 2001. The bulk of this cost, \$70 million, represented Health Services' reimbursement for cough and cold drugs. We recommended that Health Services conduct a study to identify the effect of discontinuing all or a portion of the optional drug therapeutic classifications from its benefits to Medi-Cal beneficiaries and Medi-Cal's drug costs. We advised Health Services that if it determined it was cost-effective to do so, it should discontinue some or all of the optional drug classifications.

In fact, the 2011–12 Governor's Budget proposes the elimination of over-the-counter cough and cold medications as a Medi-Cal benefit. However, additional opportunities exist to further reduce Medi-Cal costs by eliminating all or a portion of the remaining optional drug therapeutic classifications.

### Potential Benefit

Based on the analyses performed in 2003, we believe discontinuing all or a portion of the remaining optional drug therapeutic classifications will potentially yield significant savings to the State's General Fund.

### Action Needed

This recommendation will require modifications to state law and federal approval through modification of the State Plan.

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## Revise Pharmaceutical Reimbursement Method

### RECOMMENDATION

Direct the California Department of Health Care Services (Health Services) to use the Average Acquisition Cost (AAC) instead of the Average Wholesale Price (AWP) to reimburse Medi-Cal pharmacy providers.

#### State Auditor's Work Supporting This Recommendation

Health Services administers the State's Medi-Cal program and in doing so it purchases drugs for Medi-Cal beneficiaries—generally low-income individuals and families who receive public assistance or lack health coverage. The State and federal governments jointly finance health care services provided under the Medi-Cal program, including optional services such as prescription drugs.

We have studied certain state departments' purchase of prescription drugs and reported on their pharmacy reimbursement methodologies. In our May 2005 audit report titled *Pharmaceuticals: State Departments That Purchase Prescription Drugs Can Further Refine Their Cost Savings Strategies* (Report 2004-033), we discussed Health Services' purchase of drugs for Medi-Cal beneficiaries. A Medi-Cal beneficiary can obtain prescription drugs from a pharmacy enrolled as a provider in the Medi-Cal program. The pharmacy in turn seeks reimbursement from Health Services. Historically, Health Services has reimbursed pharmacies using the AWP minus a specified percentage using First DataBank, Inc. as its primary price reference source for the AWP. However, First DataBank, Inc. has announced that it will cease publishing the Blue Book AWP data field for all drugs no later than September 2011.

More recently, states became interested in moving to a reimbursement methodology that uses AAC, which is the actual cost of the drugs to the pharmacies based on their invoices. For example, the federal Centers for Medicare and Medicaid Services (CMS) approved the state of Alabama Medicaid's use of an AAC, instead of AWP, in September 2010. Alabama selects a random sample of all enrolled pharmacies at least weekly and requests that they submit one month's invoices from all sources. Alabama's contractor then calculates the average cost per drug.

The CMS acknowledges that it is difficult and costly for each state to create its own data source for AAC. Thus, CMS is about to undertake a national survey of pharmacies to create a database of AAC that states may use as a basis for determining state-specific rates. The CMS anticipates that the data will be available later this year.

#### Potential Benefit

Alabama plans to adopt AAC as the benchmark for drug reimbursement in 2011, and expects to save a total of 6 percent of its pharmacy costs or \$30 million of which \$8.9 million is the State's share. Given that Health Services procured more than \$4 billion in prescription drugs during fiscal year 2003–04, once implemented this change could potentially yield significant savings for California.

#### Action Needed

This recommendation will require modifications to Welfare and Institutions Code and related state laws.

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## Modify State Leases as Necessary

### RECOMMENDATION

Direct state agencies and departments to review any leases of real property to determine whether that property is unoccupied or underoccupied. If space leased is unoccupied, the Department of General Services (General Services) should terminate the lease as soon as legally possible. If space leased is underoccupied, General Services should renegotiate the lease so that it only covers the space that is occupied.

### State Auditor's Work Supporting This Recommendation

In our April 2009 investigative report titled *Investigations of Improper Activities by State Employees: July 2008 Through December 2008* (I2009-1), we reported that the Department of Corrections and Rehabilitation (Corrections) and General Services wasted \$580,000 in state funds by continuing to lease 5,900 square feet of office space that Corrections had not occupied for more than four years.

### Potential Benefit

Our investigation only involved 5,900 square feet over a four-year period, yet it still resulted in the waste of nearly \$600,000 in state funds. Leases are a significant cost in state government. For example, total minimum lease payments over the life of state leases in effect as of June 30, 2010, is estimated at \$9.1 billion. Thus, if state agencies and departments identify leases of space that is unoccupied or underoccupied, the future savings for the State could be significant.

### Action Needed

The Governor can implement this recommendation by issuing an Executive Order.

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## Justify State Vehicle Use

### RECOMMENDATION

Direct all state agencies and departments that have issued state cars to employees to justify the business need and evaluate whether issuing cars to state employees is cost-effective.

### State Auditor's Work Supporting This Recommendation

This is a frequent subject of allegations received by our investigative division under the Whistleblower Protection Act. For example, in September 2004 we reported on an investigation involving managers and employees at the Department of Health Services' Medical Review Branch Office in Southern California that regularly used state vehicles for their personal use (*Investigations of Improper Activities by State Employees: January 2004 Through June 2004*, Report I2004-2). Nine employees, including two managers, used state vehicles to commute between their homes and the office in violation of state laws and regulations.

In September 2007 we reported another instance in which the Department of Mental Health (Mental Health) violated provisions of state law that require a state agency to justify its need to purchase vehicles and receive prior approval for the purchase from General Services (*Investigations of Improper Activities by State Employees: February 2007 Through June 2007*, Report I2007-2). Mental Health indicated that it intended to use two Ford Crown Victoria Police Interceptors for law enforcement purposes in its request for approval. However, after receiving approval and purchasing the vehicles, the hospital used them for non-law enforcement purposes, including commuting.

The Office of Fleet Administration (fleet administration) within the Department of General Services (General Services) is responsible for the administration of state-owned vehicles. To ensure that departments are efficiently using the state vehicles they lease, General Services reviews vehicle usage reports, which it requires departments to submit biannually, explaining the usage and action taken on any vehicles not driven at least 6,000 miles or 80 percent of workdays within a six-month period.

### Potential Benefit

A significant, but unknown, cost savings would result to the extent that it is found that there is insufficient justification for many of the cars or that providing cars to state employees is not cost-effective. For example, it may be more cost-effective to reimburse employees for use of a personal vehicle to conduct state business rather than providing them a state car.

### Action Needed

The Governor can implement this recommendation by issuing an Executive Order.

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## Reduce State Motor Pool

### RECOMMENDATION

Direct fleet administration to compare the actual cost of operating its motor pool to the amount the State would pay commercial rental companies. Consider closing state garages that are not cost-effective.

### State Auditor's Work Supporting This Recommendation

In our July 2005 audit report titled Department of *General Services: Opportunities Exist Within the Office of Fleet Administration to Reduce Costs* (Report 2004-113), and a follow-up audit we completed in May 2007, we found fleet administration operated five garages and owned over 6,000 vehicles. As of August 2010, the number of vehicles increased to more than 7,200. Fleet administration rents its vehicles on short- and long-term bases, depending on agency need. As of May 2007 fleet administration had not conducted the analyses we had previously recommended to measure its cost-effectiveness by comparing the actual costs to operate the motor pool to the amount that the State would pay using similar vehicles at the rates charged by commercial rental companies. During our follow-up review, we also noted that despite capturing the relevant financial data, fleet administration was not aware that two of its garages have been operating at a loss. For fiscal year 2010–11, the amount estimated to operate the motor pool has increased to \$50.5 million, which includes personnel costs to run the garages and maintain the vehicles, general costs such as fuel, and the cost of vehicle depreciation.

A 2006 consultant's study performed for the Department of General Services (General Services) supports the need for this recommendation. The consultant indicated that fleet administration's maintenance management program, which is responsible for approving maintenance of all state vehicles "is not providing competitive services in this area—both in terms of costs and service levels." The consultant concluded that fleet administration's estimated annual maintenance and repair costs are \$312 higher per vehicle than the costs of the largest U.S. fleet management company it chose for comparison purposes. The consultant stated it believed the higher costs were generally the result of the replacement practices in place at General Services. The consultant also indicated that many issues could be resolved if the State adopted more rational replacement policies and practices instead of the current criterion for replacing most passenger vehicles at 120,000 miles, regardless of the vehicle's age.

### Potential Benefit

Significant cost savings may result if General Services reduces the size of its fleet and has state employees rent from commercial rental companies instead or use alternative transportation. If General Services were able to consolidate and close some of its less-active garages, the State would be able to save a significant portion of the roughly \$50.5 million annual cost to operate the motor pool each year.

### Action Needed

The Governor can implement this recommendation by issuing an Executive Order.

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## Leverage State Purchasing Power

### RECOMMENDATION

Create a task force comprised of representatives from various state agencies' procurement staff to discuss purchasing patterns and needs, and consider applying various techniques and best practices throughout the State to maximize savings to the State for future purchases.

### State Auditor's Work Supporting This Recommendation

Contracts for statewide goods typically last several years and can involve millions of dollars in purchases by multiple state agencies. In 2004 the Department of General Services (General Services) hired a consultant to assist in implementing a strategic-sourcing initiative to leverage the State's buying power and save money on goods and services that state agencies purchase most frequently. Between February 2005 and July 2006, General Services awarded a series of strategically sourced contracts, establishing these contracts as mandatory for state agencies to use in order to achieve savings.

In our 2010 audit report titled *Department of General Services: It No Longer Strategically Sources Contracts and Has Not Assessed Their Impact on Small Businesses and Disabled Veteran Business Enterprises* (Report 2009-114), we reported that General Services had awarded 33 statewide strategically sourced contracts for 10 categories of goods between February 2005 and July 2006. Although General Services had realized at least \$160 million in net savings to the State through June 2007 from these contracts and incurred costs to train staff, create a specialized unit, and develop written procedures on strategic sourcing, it had not awarded any new strategically sourced contracts. Moreover, even though the consultant it hired in 2004 had identified 20 other categories of goods and services as candidates for strategic sourcing, General Services did not award any additional contracts. We recommended that General Services conduct reviews of these categories to determine if there are further opportunities to achieve savings and that it should work with state agencies to identify detailed purchases for categories that it identifies as viable opportunities.

Additionally, we have identified problems with procurement practices involving various state agencies and departments in numerous other reports we have issued, including information technology, prescription drugs, medical supplies, and other goods.

### Potential Benefit

If the State leveraged its purchasing power, significant, but unknown, savings could be achieved given the many purchases it makes each year. General Services subsequently reported to us that none of the 20 other categories warranted additional strategic-sourcing contracting efforts. General Services states that, in consultation with its customers, it uses available data on purchasing patterns to identify if strategic sourcing or another procurement vehicle should be used. However, it is unclear to what extent General Services implemented new procedures since the audit, nor was it able to provide information that would allow us to fully substantiate the actions it reported it was taking.

### Action Needed

The Governor can implement this recommendation by issuing an Executive Order.

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# Adjust Regulatory Fees

## RECOMMENDATION

Direct state agencies and departments that have authority to impose and collect a regulatory fee to review the amount collected for purposes of that fee to determine whether the amount collected reasonably relates to the cost of providing the service.

## State Auditor's Work Supporting This Recommendation

Our September 2008 audit report titled *Department of Public Health: Laboratory Field Services' Lack of Clinical Laboratory Oversight Places the Public at Risk* (Report 2007-040), contained a finding regarding the failure of Laboratory Field Services (Laboratory Services) to appropriately assess fees. In three instances since fiscal year 2003–04, Laboratory Services incorrectly adjusted the fees it charged to clinical laboratories, resulting in more than \$1 million in lost revenue. State law requires Laboratory Services to adjust its fees annually by a percentage published in the budget act. From fiscal years 2003–04 through 2007–08, the budget acts included two fee increases: an increase of 22.5 percent effective July 1 of fiscal year 2006–07 and an increase of 7.61 percent effective July 1 of fiscal year 2007–08. However, Laboratory Services raised fees by 1.51 percent effective July 1 of fiscal year 2003–04, when it was not authorized to do so, and failed to raise fees effective July 1 of fiscal years 2006–07 and 2007–08, when it should have done so. Laboratory Services relied on an incorrect provision of the budget act in calculating its fees, and we found evidence of communication from the budget section within the Department of Public Health directing Laboratory Services not to raise its fees and citing the wrong provision of the budget act.

Another example involving fees is found in our July 2009 audit report titled *State Bar of California: It Can Do More to Manage Its Disciplinary System and Probation Processes Effectively and to Control Costs* (Report 2009-030), where we noted that the State Bar of California had not updated the formula it uses to impose a fee on attorneys who are subject to disciplinary action during the last five years. We estimated that if it had updated its billing formula to reflect the increased cost of service (disciplinary proceedings), it could have billed \$850,000 more during the period from 2006 to 2008 than it did.

## Potential Benefit

The exact amount of potential revenue that this review may reveal is unknown. However, given that regulatory fees collected totaled \$5.3 billion in fiscal year 2008–09 and should cover the cost of the services they support, it is important to undertake this analysis on a statewide basis.

## Action Needed

This recommendation can be implemented through an Executive Order. To the extent that the amount of the fee is established by statute and there is no discretion for the agency or department to modify the amount of the fee, then statutory authorization will be needed.

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## Adjust Fines and Penalties

### RECOMMENDATION

Direct state agencies and departments that have the authority to impose and collect a fine or penalty to review those fines and penalties to determine when they were established or last adjusted. For those fines and penalties that have not been adjusted in the last two years, adjust for inflation.

### State Auditor's Work Supporting This Recommendation

Our June 2010 audit report titled *Department of Public Health: It Reported Inaccurate Financial Information and Can Likely Increase Revenues for the State and Federal Health Facilities Citation Penalties Accounts* (Report 2010-108) revealed that the Department of Public Health could have increased revenue by revising the monetary penalty amounts for citations it issues to long-term health care facilities (facilities) that failed to comply with state requirements. Specifically, we determined monetary penalties for certain violations had not been revised since 2001 while others had not been revised since 1985. By adjusting the monetary penalty amounts for inflation, we estimated that the State could have collected nearly \$3.3 million more for penalties imposed on facilities.

### Potential Benefit

In fiscal year 2008–09, the State collected \$860 million in penalties. The exact amount of increased revenue that may be realized by implementing this recommendation statewide is unknown but likely substantial. For example, the Department of Industrial Relations (Industrial Relations) collected Cal/OSHA penalty assessments for deposit into the General Fund. The rate schedule for these penalty assessments has not been updated since 2000. In fiscal year 2009–10, Industrial Relations reported General Fund penalty assessments of \$18 million. However, if Industrial Relations had adjusted its Cal/OSHA penalty assessments for inflation, the amount of penalties it would have assessed would have been \$23.8 million instead of \$18 million—an increase of \$5.8 million (32 percent). Given the considerable amount of money collected by the State in fines and penalties each year, we believe it is worthwhile to assess and analyze the potential increase in revenue that could be realized if the amount collected through fines and penalties by each state agency or department is increased to reflect inflation in cases where it has been two or more years since the fine or penalty was last adjusted.

### Action Needed

The Governor can implement this recommendation by issuing an Executive Order, except to the extent a fine or penalty is established by statute.

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**Excerpts from the California State Auditor's Report  
Implementation of State Auditor's Recommendations  
Audits Released in January 2009 Through December 2010**

## Department of Public Health

### It Reported Inaccurate Financial Information and Can Likely Increase Revenues for the State and Federal Health Facilities Citation Penalties Accounts

REPORT NUMBER 2010-108, JUNE 2010

#### *Department of Public Health's response as of December 2010*

The Joint Legislative Audit Committee (audit committee) requested that the Bureau of State Audits (bureau) conduct an audit of the Department of Public Health's (Public Health) management of the State Health Facilities Citation Penalties Account (state account) and the Federal Health Facilities Citation Penalties Account (federal account), into which monetary penalties collected from long-term health care facilities are deposited.

#### **Finding #1: Public Health prepared fund condition statements for the federal account that overstated funds available for appropriation.**

The federal account's fund condition statements for fiscal years 2004–05 through 2008–09, which appeared in the governor's budget, contained significant errors. Specifically, Public Health and its predecessor excluded financial information concerning the Department of Aging (Aging) when preparing the fund condition statements for the federal account, causing the fund balance to be overstated each year. The inaccurate reporting of the federal account's fund balance led to an overstatement of \$9.9 million as of June 30, 2009.

The fund balance overstatements occurred in large part because Public Health's budget section excluded financial information concerning Aging when preparing the fund condition statements for the federal account. Since fiscal year 2003–04, Aging has received an annual budget act appropriation from the federal account for its Long-Term Care Ombudsman Program (ombudsman program). Until March 30, 2010, the procedure manual used by staff in Public Health's budget section when preparing the fund condition statements did not indicate that preparation of the fund condition statement for the federal account required merging the activity associated with the financial statements from Aging's ombudsman program. Further, according to a manager in Public Health's budget section, the section did not have a sufficient number of qualified staff to ensure that the fund condition statements were accurately prepared. As a result, Public Health prepared inaccurate fund condition statements for inclusion in the governor's budget.

We recommended that Public Health include text in its budget section procedure manual requiring staff to reconcile the revenues, expenditures, and fund balance as supported by Aging's and Public Health's accounting records to the fund condition statement prepared for inclusion in the governor's budget. We also recommended that a supervisory review be performed of the reconciliation of the fund condition to Aging's and Public Health's accounting records.

#### **Audit Highlights . . .**

*Our review of the Department of Public Health's (Public Health) management of the state and federal Health Facilities Citation Penalties accounts (state and federal accounts) over a nearly seven-year period revealed the following:*

- » *Public Health's poor internal controls led to significant errors in the fund balance for the federal account—for at least five years, it or its predecessor overstated the fund balances that are included in the governor's budget.*
- » *The federal account's ending fund balance for fiscal year 2008–09 was overstated by \$9.9 million.*
- » *Although Public Health generally collects all nonappealed monetary penalties, it inappropriately granted reductions to 135 citations.*
- » *In part due to a lengthy appeals process, Public Health collects a significantly lower portion of monetary penalties for appealed citations.*
- » *Opportunities exist for Public Health to increase revenue for both the state and federal accounts.*

***Public Health's Action: Corrective action taken.***

Public Health stated that the budget section procedures manual has been updated with the revised fund condition statement procedures, which include obtaining financial statements from other departments and performing a supervisory review of the reconciliation. Further, Public Health stated that the budget section performed the internal review of the fund condition statements in October 2010.

**Finding #2: Public Health collects a high proportion of the monetary penalties it imposed on facilities that chose not to appeal, but some penalties were reduced inappropriately.**

Although we found that Public Health generally collected all of the monetary penalties that were collectable for the citations it issued to facilities that decided not to appeal monetary penalties imposed from fiscal year 2003–04 through March 15, 2010, the original penalty amounts were often substantially decreased before facilities made their payments. These decreases were generally due to state law, which grants facilities an automatic 35 percent reduction in original monetary penalty amounts if the penalties are paid and not contested within time frames specified in law. We found that Public Health inappropriately granted reductions to facilities that paid their penalties after the time frames specified in law, depriving the state account of roughly \$70,000 in revenues that it was otherwise due. These inappropriate reductions were mainly due to the inaccurate calculation made by the Electronic Licensing Management System (ELMS), the system used by Public Health to track facilities' enforcement penalties resulting from noncompliance with state requirements to determine whether a facility's payment was received in time to warrant a 35 percent reduction. Depending on the type of violation, state law specifies that to be eligible for a reduction, a facility must pay the monetary penalty within 15 or 30 business days after the issuance of the citation. However, ELMS was programmed instead to use the date that a facility certifies that it received the citation imposing the monetary penalty. In addition, we also noted that the monetary penalty assessment form that Public Health sends to a facility when issuing a citation incorrectly referenced state law, potentially giving facilities the impression that they have more time in which to make their payments to receive the reduction than is allowed under state law.

We recommended that Public Health update ELMS to use the issuance date of the citation as specified in state law when calculating whether a facility's payment was received in time to warrant a 35 percent reduction. Further, we recommended that Public Health update its monetary penalty assessment form to ensure it contains language that is consistent with state law. Finally, we recommended that to the extent Public Health believes state law should be revised to reflect the date on which the facility received the citation, rather than the date the citation was issued, it should seek legislation to make such a change.

***Public Health's Action: Partial corrective action taken.***

Public Health stated that it is finalizing the enhancement of the ELMS to calculate the 35 percent reduction based on the issuance date of the citation. Further, Public Health stated that the monetary penalty assessment form was updated in September to contain language consistent with state law. Finally, Public Health stated that it does not believe it needs to revise state law to reflect the date on which the facility received the citation, rather than the date the citation was issued. Thus, our related recommendation is not applicable.

**Finding #3: Prompt collection of monetary penalties is affected by appealed citations and the backlog of facilities awaiting citation review conferences.**

Public Health is unable to collect millions of dollars in monetary penalties that it imposed on facilities over the past several years because facilities have appealed the citations. Specifically, facilities appealed more than 1,400 citations issued from fiscal year 2003–04 through March 15, 2010, associated with roughly \$15.7 million in monetary penalties. Of these, as of March 15, 2010, nearly 1,000 citations

comprising nearly \$9 million in monetary penalties were still under appeal. Public Health may not collect appealed monetary penalties until a decision is reached to uphold, modify, or settle the monetary penalty. As a result, there are incentives for facilities to appeal citations, particularly those involving higher penalties, because facilities can defer payments of the penalties and possibly reduce the original amounts imposed.

Further, both Public Health and external parties, such as arbitrators or administrative law judges, may significantly reduce monetary penalty amounts. Public Health reduced monetary penalties by over \$2.7 million from fiscal year 2003–04 through March 15, 2010. This resulted in an average reduction of 59 percent of the originally imposed citations that were appealed, much more than the 35 percent reduction allowed by state law for facilities that do not contest a penalty and pay it within a specified time frame. Rather than pursuing an appeal through the judicial system, a facility may request a citation review conference, in which an independent hearing officer from Public Health's Office of Legal Services makes a determination on whether to uphold, modify, or dismiss the citation. More than 600 citations were awaiting a citation review conference as of February 2010, with corresponding monetary penalties amounting to nearly \$5 million. According to the deputy director of Legal Services, at the time of our audit, Public Health had begun taking steps to reduce the backlog of appealed citations awaiting a citation review conference, including hiring and training retired annuitants and entering into a contract with the Office of Administrative Hearings (OAH) to conduct citation review conferences for certain types of appealed citations.

Current federal law provides facilities the opportunity to refute any enforcement remedies, including monetary penalties, by way of an informal dispute resolution. Unlike the citation review conference, federal law prohibits a facility from seeking a delay of any enforcement action that the Centers for Medicare and Medicaid Services (CMS) has taken against it, including the imposition of a monetary penalty, on the grounds that the informal dispute resolution has not been completed before the effective date of the monetary penalty. Thus, if a facility has requested an informal dispute resolution that has not yet been completed by the due date of the penalty, the facility must still pay the monetary penalty.

We recommended that Public Health seek legislation authorizing it to require facilities that want to appeal a monetary penalty to pay the penalty upon its appeal, which could then be deposited into an account within the special deposit fund. In addition, we recommended that Public Health provide guidance to its staff that discourages settling appealed monetary penalties for a better term than had the facility not contested the citation and paid the penalty within the time frame specified in law to receive a 35 percent reduction, and, in instances where such a settlement did occur, document the factors that formed the basis for such a reduction. Further, we recommended that Public Health continue to take steps to eliminate its backlog of appeals awaiting a citation review conference and seek legislation amending its citation review conference process to more closely reflect the federal process by prohibiting facilities from seeking a delay of the payment of monetary penalties. Finally, we recommended that it monitor its and OAH's progress in processing appealed citations.

***Public Health's Action: Partial corrective action taken.***

Section 1417.5, added to the Health and Safety Code in October 2010, requires Public Health to develop recommendations to streamline its citation appeal process, and to collect citation penalty amounts upon appeal of the citation and place those funds into a special interest bearing account. The recommendations must be presented to the fiscal and policy committees of the Legislature no later than March 1, 2011.

Public Health stated that it disagrees with our finding related to establishing a policy that discourages settling appealed monetary penalties for a better term than had the facility not contested the citation, and will therefore not implement our recommendation. Additionally, Public Health stated that it will not implement our recommendation related to documenting the factors that formed the basis for reducing a monetary penalty by more than 35 percent. While Public Health agreed there should not be incentives for facilities to appeal citations, it asserted that it must maintain maximum discretion to weigh all factors in a final settlement. However, as we describe in the finding, using its discretion



in reducing monetary penalties has resulted in Public Health granting an average reduction to monetary penalties of 59 percent of the amount originally imposed over the past six years. Therefore, it appears that the manner in which Public Health is currently exercising its discretion to reduce monetary penalties could be an incentive to facilities to appeal citations.

To address the backlog of appeals awaiting a citation review conference, Public Health stated that it conducted citation review conferences for nearly all Class AA citations, which impose the highest monetary penalties. Further, Public Health set six citation review conferences and stated that 227 still need to be set for a conference. Finally, Public Health began transitioning the Class A violation citation review conferences to OAH in August 2010.

Finally, Public Health established a project manager position for the OAH interagency agreement and the coordinator of the citation review conferences. Public Health also developed a tracking system for following the progress of hearing the citations.

**Finding #4: Opportunities exist to increase revenue for the state and federal accounts.**

Monetary penalty amounts for three types of violations have not been updated regularly to reflect the Consumer Price Index (CPI). If state law had adjusted the monetary penalties to reflect the CPI, Public Health could have collected nearly \$3.3 million more than it actually collected. Similar opportunities to increase revenue for the federal account might also exist. Although revising these monetary penalty amounts would require changes to federal regulations, Public Health could encourage CMS to seek such changes. Another opportunity for Public Health to increase revenue for the state account is to ensure that it conducts all inspections of facilities in accordance with the time frames specified in state law. Legislation effective July 1, 2007, required Public Health to incorporate both federal and state requirements into its federal survey process and thus conduct dual-purpose surveys. Although this law has been in effect for nearly three years, only about 10 percent of the surveys conducted by Public Health were dual-purpose. As a result, although Public Health currently surveys facilities for compliance with federal requirements, it has not surveyed or imposed the resulting monetary penalties for the majority of facilities in the State to ensure their compliance with state requirements. Further, Public Health may have the opportunity to increase revenue for both the state and federal accounts by requesting that they be included in the state's Surplus Money Investment Fund (SMIF). Currently, both accounts are included in the Pooled Money Investment Account and earn interest for deposit into the General Fund. The penalty accounts would earn interest that is returned to the respective accounts rather than the General Fund if they were included in the SMIF.

California is one of the few states whose laws prohibit Public Health from assessing a monetary penalty for noncompliance with state requirements and then recommending that CMS also impose a monetary penalty for noncompliance with federal requirements. Because some portion of monetary penalties resulting from Public Health's recommendations to CMS is deposited into the federal account, this law limits the amount of revenue deposited into the federal account. Further, although CMS collects interest on the monetary penalties it imposes on facilities that are not paid on time for noncompliance with federal requirements, state law does not authorize Public Health to do so. In addition, state law does not specify a time frame within which a monetary penalty must be paid if a facility elects not to appeal the citation. If state law prescribed a time frame within which a nonappealed citation must be paid, and if it authorized Public Health to collect interest on monetary penalties paid after that date, it too could collect additional revenues. An additional opportunity for Public Health to increase revenue for the federal account is by working more closely with CMS to track the outcomes of the recommendations it makes to CMS. Public Health does not currently have an effective system in place to perform this tracking.

To increase revenue for both the state and federal accounts, we recommended that Public Health seek legislation authorizing it to revise periodically the penalty amounts to reflect an inflation indicator, and encourage CMS to seek changes to federal regulations authorizing CMS to revise the monetary penalty amounts to reflect the rate of inflation. Further, we recommended that Public Health ensure

that it conducts all state surveys of facilities every two years. We also recommended that Public Health submit to the Pooled Money Investment Board a request that the board approve including both the state and federal accounts in the SMIF. Additionally, we recommended that Public Health seek authorization from the Legislature both to impose a monetary penalty and to recommend that CMS impose a monetary penalty, and to seek legislation specifying a time frame within which facilities with nonappealed citations that do not qualify for a 35 percent reduction must pay their monetary penalties and allowing Public Health to collect interest on late payments of monetary penalties. Finally, we recommended that Public Health increase its coordination with CMS to ensure that it can track CMS's implementation of the recommendations that Public Health makes to CMS.

***Public Health's Action: Partial corrective action taken.***

Section 1417.5, added to the Health and Safety Code in October 2010, requires Public Health to develop recommendations to increase penalty amounts, including late penalty fees, and to annually adjust penalty amounts to reflect an inflation indicator. The section also requires Public Health to recommend revisions to state law to enable the department to recommend that CMS impose a monetary penalty when Public Health determines that a facility is out of compliance with both state and federal requirements. The recommendations must be presented to the fiscal and policy committees of the Legislature no later than March 1, 2011. Additionally, Public Health stated that, in January 2011, it will forward to CMS a copy of our audit report with a cover letter that encourages CMS to periodically revise the monetary penalties.

Public Health concurs that it should conduct all state surveys of facilities every two years as required by state law. However, Public Health stated that it is unable to meet this standard at this time due to limited staffing resources.

Public Health did not entirely agree with our recommendation to seek legislation specifying a time frame within which facilities with nonappealed citations, that do not qualify for a 35 percent reduction, must pay their monetary penalties and collecting interest on late payments of monetary penalties. However, Public Health will explore proposed legislation for the 2011 Legislative Session that specifies a time frame within which nonappealed citations that do not qualify for a 35 percent reduction must be paid.

Public Health stated that it submitted a request to the Pooled Money Investment Board to include the penalty accounts in the SMIF in June. The request was approved and the penalty accounts began to accrue interest for the fourth quarter of fiscal year 2009–10.

Finally, Public Health also noted in its 60-day response that it met with CMS in June regarding tracking CMS's implementation of the recommendations that Public Health makes, and has initiated the process to track this information. In its six-month response, Public Health stated that it will request continued assistance from CMS to enable Public Health to more closely track the outcome of its recommendations.

**Finding #5: Public Health has not fully implemented all 2007 audit recommendations related to the state account, and our follow-up audit identified additional concerns.**

In April 2007 the bureau issued a report titled *Department of Health Services: Its Licensing and Certification Division Is Struggling to Meet State and Federal Oversight Requirements for Skilled Nursing Facilities*, Report 2006-106. This report concluded that the Department of Health Services had weak controls over its disbursement of funds from the state account and did little to ensure that the payments it made to temporary management companies were necessary or reasonable. As part of our review of Public Health's internal controls over expenditures, we performed follow-up procedures to determine whether Public Health had implemented controls over its disbursement of both state and federal account funds and whether it had taken steps to ensure that payments were necessary and reasonable.

During our follow-up review, we found that Public Health had not fully implemented the recommendation that it document its rationale for charging general support items to the state account. Specifically, Public Health made some erroneous charges totaling \$15,000 to the penalty accounts, including charges for car rental expenses, in fiscal years 2007–08 and 2008–09. These charges were the result of posting errors made by Public Health in its accounting system. We also identified some additional concerns about Public Health’s procedures for overseeing temporary management companies. For example, the California Health and Safety Code, Section 1325.5 (m), requires Public Health to adopt regulations for the administration of temporary managers. However, to date, they had not been developed. Rather than using formally adopted regulations, Public Health used internal procedures to guide its oversight of temporary management companies. The Administrative Procedure Act (act), which defines the process for adopting regulations, requires agencies to accept comments from interested parties regarding the proposed regulations and to hold public hearings if requested. Because Public Health followed internal policies that were developed without the process of public review, Public Health violated state law prohibiting agencies from enforcing regulations that have not been adopted in accordance with the act.

We recommended that, to ensure that it fully implements the recommendations made in the bureau’s April 2007 audit report, Public Health create written procedures specifying that expenditure reports be reviewed by an accounting analyst within Public Health on a monthly basis to determine whether any charges do not apply to temporary manager payments. Further, Public Health should include in its written policies and procedures that general support items should not be charged to the penalty accounts. Finally, to ensure that it complies with current state law and increases transparency, Public Health should adopt regulations for the administration of temporary management companies.

***Public Health’s Action: Partial corrective action taken.***

Public Health stated that it finalized and implemented the procedures specifying that expenditure reports should be reviewed by an accounting analyst within Public Health on a monthly basis. Additionally, in June 2010, Public Health circulated written policies and procedures to staff, which noted that general support items should not be charged to the penalty accounts. Finally, Public Health also stated that it will complete the regulations for the administration of temporary management companies by 2016.



## Department of Public Health

### It Faces Significant Fiscal Challenges and Lacks Transparency in Its Administration of the Every Woman Counts Program

REPORT NUMBER 2010-103R, JULY 2010

#### *Department of Public Health's response as of December 2010*

The Joint Legislative Audit Committee (audit committee) asked the Bureau of State Audits (bureau) to determine how the Every Woman Counts (EWC) program ended up in a budget crisis and whether the Department of Public Health (Public Health) has operated the EWC program efficiently over the past several years.

#### **Finding #1: Opportunities exist for Public Health to identify and potentially redirect EWC program funds to screening services.**

Our audit found that Public Health could do more to maximize the funding available to pay for screening services. When requesting additional funding from the Legislature in June 2009, Public Health claimed that redirecting funds within the EWC program from other areas—such as efforts aimed at providing outreach to women and training for medical providers—to pay for additional screening services would not be possible given federal requirements and would jeopardize federal funding from the Centers for Disease Control and Prevention (CDC). However, our analysis found that Public Health's claim was incorrect. We estimate that had Public Health redirected one-half of the amount it spent on various contracts for nonclinical activities in fiscal year 2008–09, it could have dedicated about \$3.4 million to pay for screening activities. This funding would have allowed more than 27,500 additional women to obtain screening services from the EWC program.

However, Public Health's ability to identify and redirect funds toward activities that directly support women is hampered by the fact that Public Health cannot determine how much its contractors spend on other activities. For example, Public Health spent more than \$6.7 million on various contracts with local governments and nonprofit organizations during fiscal year 2008–09; however, it does not know how much these contractors spent on each contracted activity because it lacks specific accounting mechanisms, such as detailed invoices to track expenditures for individual contracted activities. Instead, Public Health knows only the total amount payable under each contract and how much has been billed for general categories such as personnel costs and overhead to date. Without knowing how much contractors are spending on specific services that support the EWC program, Public Health lacks a basis to know whether the funds paid for these activities would have been better spent on additional mammograms or other screening procedures.

To ensure that Public Health maximizes its use of available funding for breast cancer screening services, we recommended that it evaluate each of the EWC program's existing contracts to determine whether the funds spent on nonclinical activities are a better use of

#### **Audit Highlights . . .**

*Our review of the Department of Public Health's (Public Health) administration of the Every Woman Counts (EWC) program, revealed the following:*

» *Funding the EWC program will likely be more difficult in the future due to:*

- *Declines in tobacco tax revenue.*

- *Fiscal pressures placed on the State's budget resulting from the economic recession.*

» *As a result of the budget problems, Public Health:*

- *Asked for a budget augmentation of \$13.8 million in June 2009.*
- *Imposed more stringent eligibility requirements and froze new enrollment for six months beginning in January 2010.*

» *Contrary to its previous claims, Public Health has a great deal of flexibility to use existing EWC program funds to provide screening services to women.*

» *Public Health's ability to redirect funds is hampered because it cannot easily identify funds it uses for activities that do not directly support women.*

» *Public Health does not provide the Legislature with estimates of the number of women it expects to serve in a fiscal year, even though it provides this information to the federal government to secure federal funds.*

*continued on next page . . .*

» *Public Health has not fully complied with certain aspects of state law. Specifically, it has not:*

- *Developed regulations that implement the EWC program—nearly 16 years after the program began.*
- *Evaluated the effectiveness of the EWC program in annual reports to the Legislature—since 1994, only one report was submitted.*

taxpayer money than paying for a woman's breast or cervical cancer screening. To the extent that Public Health continues to fund its various contracts, we further recommended that it establish clearer expectations with its contractors concerning how much money is to be spent directly on the different aspects of the EWC program and should monitor spending to confirm that these expectations are being met.

***Public Health's Action: Partial corrective action taken.***

Public Health's six-month response indicates that it has not evaluated all of its contracts to determine whether the funds spent are a better use of taxpayer funds than paying for additional screenings. In particular, Public Health's response indicates that it has only evaluated the contracts of its regional centers. However, it appears that Public Health's review has resulted in it taking steps to significantly reduce the costs associated with these contracts. According to a budget presentation that Public Health made to the Legislature on November 5, 2010, Public Health plans to spend between \$200,000 and \$220,000 over an 18-month period for each regional center. For context, these same regional centers previously had contracts spanning several years that averaged between \$332,000 and \$480,000 over a 12-month period. During its presentation to the Legislature, Public Health reported that two of the 10 regional centers declined to accept the reduced contracts, while another three regional centers had agreed to the reduced contract amounts. Public Health defined the contract status of the remaining five regional centers as "pending" or as requiring approval from a county board of supervisors.

Public Health's six-month response also indicated that it has communicated its expectations to the regional centers regarding their expected level-of-effort on different aspects of the program. Specifically, Public Health indicated that it has established a "percent of effort" next to each contract activity and requires contractors to perform quarterly time studies to ensure that the contractors are adhering to the contract's terms. Public Health provided a summary report of the results of the first time study that indicated where contractors were spending too little effort or too much effort relative to Public Health's expectations. The time study was based on information from one week's worth of work.

**Finding #2: Public Health needs to provide the Legislature with better information regarding caseload and cost.**

Although state law says that screening under the EWC program is not an entitlement, Public Health indicated that it has tried to provide all eligible women with screening services. However, rather than assess how much funding it needs to provide these services and how many women could be served as a result, our audit found that Public Health instead bases its funding requests on past expenditure trends and projected growth factors. Public Health could provide greater transparency and help establish clearer expectations for program outcomes if it gave the Legislature information on its projected caseload and the related cost, as it does with its federal grant from the CDC. The EWC program chief indicated that Public Health would like to use caseload data to be more precise in forecasting its

costs, but has not done so because it lacks confidence in the reliability of the caseload data it collects. In order to provide the federally required caseload data to the CDC, Public Health has entered into a contract with the University of California, San Francisco, to assure the quality of its caseload data. The data that Public Health submits to the CDC are the number of women served based on the federal funds provided. Had Public Health done the same at the state level, it could have helped the Legislature define expectations for the program—in terms of the number of women to be served or other similar measures—during the budget process for fiscal year 2008–09. In doing so, it would have been in a stronger position to explain to the Legislature why it needed an additional \$6.3 million to pay for clinical claims for that year. Specifically, Public Health would have been able to explain to the Legislature whether it had already served the agreed-upon number of women based on the funding provided.

To ensure that Public Health can maintain fiscal control over the EWC program, we recommended that it develop budgets for the EWC program that clearly communicate to the Legislature the level of service that it can provide based on available resources. We further recommended that Public Health seek legislation or other guidance from the Legislature to define actions the program may take to ensure that spending stays within amounts appropriated for a fiscal year.

***Public Health's Action: Partial corrective action taken.***

In its 60-day update, Public Health indicated that it had developed a caseload estimate methodology using a time-series regression analysis and was pursuing a formal estimate process for fiscal year 2010–11. In its six-month response, Public Health indicated that it was finalizing its estimate package for inclusion in the Governor's Budget for fiscal year 2010–11; however, it did not provide a copy of its estimate package for our review. Public Health's six-month response also indicated that it had requested the State's Fiscal Intermediary, Hewlett Packard, to collect Social Security numbers for women enrolled in the program. Public Health intends to use Social Security numbers as a unique identifier to better track the program's caseload and to improve its caseload estimates in the future. Public Health expects Hewlett Packard to implement this system change in the summer of 2011.

Section 169 of the Budget Act of 2010 Trailer Bill on Health (SB 853, Chapter 717, Statutes of 2010), required Public Health to provide the Legislature with quarterly updates on program caseload, estimated expenditures, and related program monitoring. Public Health's six-month response to the audit included a copy of the report it submitted to the Legislature for the first quarter of fiscal year 2010–11. The report disclosed information regarding the amounts paid for various clinical services and the number of unique identification numbers—which are assigned to women—associated with the paid claims. Public Health also appropriately disclosed to the Legislature that the number of unique identification numbers included in its report would not equate to the unique number of women served, since one woman could have multiple identification numbers.

**Finding #3: Public Health needs to provide more transparency regarding how it administers the EWC program to promote public input and enhance legislative oversight.**

Finally, our audit found that Public Health could do more to improve the public transparency and accountability with which it administers the EWC program. State law requires Public Health to develop regulations that implement the EWC program. Nearly 16 years after the program began, such regulations still have not been developed. Public Health cited staff and funding limitations as the cause for the delay. Nevertheless, had Public Health developed the required regulations, it would have provided the public with an opportunity to comment and to provide input on important aspects of the EWC program, such as eligibility requirements and service priorities should funding be exhausted. State law also requires Public Health to evaluate the effectiveness of the EWC program annually and submit a report on its findings to the Legislature. Specifically, the report is required to contain information such as the number of women served and their race, ethnicity, and geographic area, as well as information on the number of women in whom cancer was detected through the screening services provided and the stage at which it was detected. Since this reporting requirement was placed in state law in 1994, the

Legislature has received only one report—in August 1996—in response to this requirement. This lack of information on the effectiveness of the EWC program limits Public Health's ability to advocate for appropriate funding and hampers the Legislature's and the public's ability to exercise oversight.

To ensure better public transparency and accountability for how the EWC program is administered, we recommended that Public Health comply with state law to develop regulations, based on input from the public and interested parties, that would direct how Public Health administers the EWC program. At a minimum, such regulations should define the eligibility criteria for women seeking access to EWC screening services. We further recommended that Public Health provide the Legislature and the public with a time frame indicating when it will issue its annual report on the effectiveness of the EWC program. Further, Public Health should inform the Legislature and the public of the steps it is taking to continue to comply with the annual reporting requirement in the future.

***Public Health's Action: Pending.***

Public Health indicated that it is in the process of developing regulations for the program that will further define how the program will be administered. Public Health indicated that certain staff have attended training provided by the Office of Administrative Law regarding the development of regulations. According to its six-month response, Public Health has also hired a consultant with rule-making experience. Public Health's six-month response did not provide an estimate on when the program's regulations would be finalized or available for public comment. Further, Public Health's response did not indicate whether it was contemplating defining eligibility requirements for women, or establishing protocols for responding to budget shortfalls. Finally, Public Health's six-month response indicated that it is finalizing its report to the Legislature regarding the program's performance and expects to release the report on February 1, 2011.

## Department of Social Services

### For the CalWORKs and Food Stamp Programs, It Lacks Assessments of Cost-Effectiveness and Misses Opportunities to Improve Counties' Antifraud Efforts

REPORT NUMBER 2009-101, NOVEMBER 2009

#### *Department of Social Services' response as of November 2010*

The Joint Legislative Audit Committee (audit committee) asked the Bureau of State Audits (bureau) to determine the fraud prevention, detection, investigation, and prosecution structure for the California Work Opportunities and Responsibility to Kids (CalWORKs) and the federal Supplemental Nutrition Assistance Program (food stamp) programs at the state and local levels and the types of early fraud detection or antifraud programs used. Additionally, the audit committee requested that the bureau determine, to the extent possible, the cost-effectiveness of the fraud prevention efforts at the state and county levels, and to review how recovered overpayments are used. Further, we were asked to estimate, to the extent possible, the savings resulting from fraud deterred by counties' antifraud activities and whether early fraud detection programs are more cost-effective than ongoing investigations and prosecutions. Lastly, we were asked to assess the Department of Social Services' (Social Services) justification for continuing to use both the Statewide Fingerprint Imaging System (SFIS) and the Income Eligibility and Verification System (IEVS).

#### **Finding #1: Early fraud programs may not be cost-effective in all counties, but they are generally more cost-effective than ongoing investigations.**

Although they have taken some steps, neither the counties nor Social Services have conducted meaningful analyses to determine the cost-effectiveness of counties' efforts to detect and deter fraud in the CalWORKs and food stamp programs. As a result, we developed our own analysis, which indicates that the cost-effectiveness of antifraud efforts varies among the counties. Using a three-month projection of savings, our calculations showed that counties generally realize greater savings per dollar spent on early fraud activities than for ongoing investigations. This difference is due largely to the fact that according to the data that counties report, early fraud activities generally result in a much greater number of denials, discontinuances, and reductions of aid than ongoing investigations produce, and also because early fraud activities cost less. Ongoing investigations generally result in fewer discontinuances or reductions of aid because the main purpose of these investigations is to prove suspected fraud that may have occurred in the past.

Further, the net savings resulting from early fraud activities and ongoing investigations vary widely across the six counties we reviewed. For example, in the three-month projection for the food stamp program, Los Angeles County's early fraud activities yielded only 35 cents for every dollar it spent, while Orange County yielded \$1.82 in savings. Our calculations show similar variances among counties for the CalWORKs program. Differences in county practices may partially

#### **Audit Highlights . . .**

*Our review of the Department of Social Services' (Social Services) oversight of counties' antifraud efforts related to the California Work Opportunities and Responsibility to Kids (CalWORKs) program and the federal Supplemental Nutrition Assistance Program, known as the food stamp program in California, found the following:*

- » *Although they have taken some steps, neither the counties nor Social Services has performed any meaningful analyses to determine the cost-effectiveness of their efforts to detect and deter fraud in the CalWORKs or food stamp programs.*
- » *Our analysis of counties' investigative efforts found that the measurable savings resulting from early fraud activities exceed the costs for CalWORKs and approach cost neutrality for the food stamp program, assuming a three-month projection of savings.*
- » *Counties' early fraud efforts are more cost-effective than ongoing investigations.*
- » *Neither Social Services nor the six counties we visited took sufficient steps to ensure the accuracy of the data counties report on their investigation activities.*
- » *Social Services does not ensure that counties consistently follow up on information it provides them that might affect welfare recipients' eligibility.*
- » *Although Social Services asserts that the Statewide Fingerprint Imaging System (SFIS) deters welfare fraud, it has not assessed the cost-effectiveness of SFIS.*

account for variations in the cost-effectiveness of early fraud activities across the counties, to the extent that these practices affect the number of resulting denials, discontinuances, and reductions. For example, the counties that typically generated the highest measurable net savings in 2008—Orange and San Diego—not only accepted a high number of early fraud referrals but also had a high percentage of benefit denials, discontinuances, or reductions compared to their early fraud referrals.

Although neither Social Services nor the counties have performed a comprehensive analysis of the cost-effectiveness of the efforts to combat welfare fraud, some efforts have been made. One of the more promising efforts was the forming of a program integrity steering committee (steering committee) to follow up on the results of a 10-year statistical study on fraud prevention and detection activities in the CalWORKs and food stamp programs, and to identify cost-effective approaches for improving program integrity in both programs. In 2008 the steering committee approved eight recommendations for counties and 10 recommendations for Social Services regarding the most promising approaches it found. Social Services indicated that it is addressing four of the 10 recommendations directed to it and is considering how to address the remaining six.

We recommended that Social Services ensure that all counties consistently gauge the cost-effectiveness of their early fraud activities and ongoing investigation efforts for the CalWORKs and food stamp program by working with the counties to develop a formula to regularly perform a cost-effectiveness analysis using information that the counties currently submit. We also recommended that Social Services determine why some counties' efforts to combat welfare fraud are more cost-effective than others by using the results from the recommended cost-effectiveness analysis and that it seek to replicate the most cost-effective practices among all counties. Finally, we recommended that Social Services continue to address the recommendations of the steering committee and promptly act on the remaining recommendations.

***Social Services' Action: Pending.***

In November 2009, Social Services released to the counties a formula for measuring the cost-effectiveness of their fraud efforts. Because this formula is dependent on county-reported data, Social Services is working to revise the investigation activity report and instructions, with a target completion in early 2011. To allow for the sharing of cost-effective practices among counties, Social Services indicates it will soon issue an all-county letter to direct counties to its publication of the "Promising Approaches and State Recommendations" on its Web site that was derived from the 10-year study. In spring 2011, Social Services plans to establish a Web page for counties to post and share information on improving program integrity and cost-effectiveness. Finally, to determine the cost-effectiveness of counties' fraud efforts, Social Services believes an automated system is needed to track and monitor metrics and outcomes. Because Social Services lacks the funding for this system, it plans to implement an interim process by mid-2011, as resources permit.

**Finding #2: Social Services does not ensure that counties report accurate data on their welfare fraud investigations.**

Neither Social Services nor the six counties we visited have taken sufficient steps to ensure the accuracy of the counties' data in their investigation activity reports. These reports, which counties submit monthly to Social Services, summarize the counties' fraud investigative efforts. We found that the information these counties included on the investigation activity report is not always accurate, supported, or reported consistently. Social Services is aware of problems with the data and has taken some limited steps to clarify the instructions for preparing these reports. However, Social Services has not taken steps to improve the accuracy of the counties' reporting and its procedures for reviewing investigation activity reports are inadequate to detect even the most glaring errors in the data that counties report. For example, although counties reported reducing benefits on a total of nearly 5,000 cases during fiscal year 2007–08 as a result of ongoing investigations, only 41 of those cases were reported by Los Angeles County, a number that seems quite low considering the county spent over \$23 million to perform ongoing investigations during 2008 and it represents 30 percent of the

State's CalWORKs caseload. In fact, Los Angeles County confirmed to us that it has been inadvertently underreporting the number of cases in this category. Despite the known problems with counties' reporting, Social Services uses these erroneous investigation activity reports to populate part of a report it submits to the federal government and to prepare reports submitted to internal decision makers and the Legislature.

To ensure the accuracy and consistency of the data counties submit on welfare fraud activities that counties report and that Social Services subsequently reports to other parties, we recommended that Social Services remind counties that they are responsible for reviewing the accuracy and consistency of investigation activity reports submitted, that it perform more diligent reviews of the accuracy of the counties' reports, provide counties with feedback on how to correct and prevent errors that it detects, and continue with its efforts to clarify the instructions for completing the investigation activity reports.

***Social Services' Action: Pending.***

Social Services is working to revise the investigation activity report and instructions, with a target completion in early 2011. Additionally, Social Services indicates once the instructions are revised, Social Services intends to provide technical assistance to the counties on how to complete the report accurately. Social Services further stated that it reviews the investigation activity reports during its county visits and discusses any inaccuracies it finds with county staff.

**Finding #3: Social Services does not ensure that counties consistently follow up on welfare fraud matches.**

Social Services does not ensure that counties consistently follow up on information it provides them that might affect welfare recipients' eligibility. Federal and state regulations require that Social Services distribute 10 lists of individuals' names that potentially could match certain criteria that would cause the individual's aid amounts to be reduced or make them ineligible for aid (match lists). Most of these lists are in paper form. For six of the 10 match lists, federal regulations mandate that the State must, within 45 days of receiving the match information, notify the welfare recipient of an intended action—a discontinuance of or reduction in benefits—or indicate that no action is required. For the remaining four match lists, there is no mandated time period for review. None of the counties we reviewed consistently followed up on all of the match lists that had to be completed within the 45-day timeline and only one county was consistently completing matches for the four match lists without a time requirement. According to representatives from the five counties we reviewed, the format of some match lists could be improved to make them more efficient to use. For example, all five counties told us that having all match lists in electronic form would allow them to process matches more efficiently. Social Services indicates it has attempted in the past to address counties' concerns with the format of the match lists and is taking steps to provide more lists in electronic form.

Although Social Services has a process in place to monitor the counties' efforts to follow up on match lists, it is missing opportunities to improve their efforts because it does not visit all counties on a regular basis and does not always enforce recommendations from these reviews. Specifically, Social Services has not reviewed 25 of the 58 counties during the three-year period from August 2006 to August 2009, including Los Angeles County, which represents 30 percent of the State's CalWORKs caseload and was last reviewed in 2005. Social Services asserts that it lacks resources to review the counties' efforts on a regular basis.

We recommended that Social Services remind counties of their responsibility under the state regulations to follow up diligently on all match lists and work with counties to determine reasons why poor follow-up exists and address those reasons. We also recommended that Social Services revive its efforts to work with counties to address their concerns about match-list formats. Further,

we recommended that Social Services perform reviews of all counties regularly and better enforce the counties' implementation of its recommendations to correct any findings and verify implementation of the corrective action plans required.

***Social Services' Action: Pending.***

Social Services says it will issue a notice to counties in early 2011 to remind them of their obligation to consistently follow up on match lists. Social Services indicates that five of the 12 match lists are available in electronic format for 35 counties on the Interim Statewide Automated Welfare System, but that automating the other matches will be addressed as resources permit. Social Services indicates it is working to complete the IEVS reviews scheduled for fiscal year 2009–10. Social Services indicates that revisions to match list format and criteria will be worked on as resources permit.

**Finding #4: Social Services has not done a cost-benefit analysis of SFIS.**

Although Social Services asserts that SFIS deters individuals from fraudulently applying for aid in multiple counties, it has not done a cost-benefit analysis of SFIS because it believes there is no way to measure the deterrence effect of the system. When justifying the implementation of SFIS, Social Services did not conduct its own study; instead, it used the estimates from an evaluation Los Angeles County performed in 1997 to project statewide savings that would result from SFIS. However, in a report we issued in 2003, we concluded that Social Services' methodology of projecting statewide savings using Los Angeles County's estimated savings was flawed, especially in its assumption that the incidence of duplicate-aid fraud in Los Angeles County was representative of the incidence of this type of fraud statewide. Although studies that Social Services conducted in 2005 and 2009 concluded that SFIS identifies fraud that other eligibility determination procedures do not, these studies were of limited scope.

The large and ongoing historical backlog of SFIS results awaiting resolution by county staff raises questions of how counties are using SFIS in deterring fraud. As of July 31, 2009, there was a statewide backlog of more than 13,700 cases that were awaiting resolution by county staff for more than 60 days. Moreover, the number of duplicate-aid cases SFIS has detected is fairly low, given its cost. In 2008 Social Services data show that statewide the counties used SFIS to identify 54 cases of duplicate-aid fraud, and they have identified a total of 845 instances of fraud through SFIS since its implementation in 2000. Social Services believes that SFIS does not identify many cases because it deters people from applying for duplicate aid, a benefit that it asserts cannot be measured. We acknowledge that fraud deterrence is difficult to measure. However, because the State is spending approximately \$5 million per year to maintain SFIS, Social Services has an obligation to justify whether the continued use of SFIS is cost-beneficial to the State. Further, we noted that Arizona has developed a process to conduct a yearly cost-benefit analysis of its fingerprint imaging system.

Recognizing that the deterrence effect is difficult to measure, we recommended that Social Services develop a method that allows it to gauge the cost-effectiveness of SFIS. Social Services should include in its efforts to measure cost-effectiveness the administrative cost that counties incur for using SFIS. Based on its results, Social Services should determine whether the continued use of SFIS is justified.

***Social Services' Action: None.***

- Social Services believes that a new independent cost-benefit analysis of SFIS would not be beneficial because it believes that the studies it has conducted, including the original evaluation it performed in 1997, which we concluded was flawed, justifies the deterrence value of SFIS.

**Finding #5: Social Services has not taken the necessary steps to claim its share of \$42.1 million in food stamp overpayment collections.**

Since December 2003 counties have received \$42.1 million in overpayments recovered from food stamp recipients. However, Social Services has been delayed in taking the steps needed to claim its share of these overpayments or to distribute the shares of these funds due to counties and the administering federal agency, the U.S. Department of Agriculture (USDA). Overpayments to food stamp recipients can result from administrative errors by counties or inadvertent errors or fraud by recipients. Counties collect the overpayments from recipients through various means, including tax refunds intercepted and held by the federal government. For the distribution of overpayments to occur, Social Services must work with the USDA to reconcile tax intercepts and county collections, but it noted that its efforts have been delayed by staff turnover and past errors in counties' collection reports. Social Services' records show that of the \$42.1 million balance, \$17.2 million would go to the USDA, with the remaining \$24.9 million split between Social Services and the counties. The counties we reviewed deposit the cash they collect in their bank accounts and receive the interest earnings on these collections until Social Services claims its and the federal government's share. As a result of the six-year delay in addressing this issue, we estimate that Social Services lost approximately \$1.1 million in interest earnings on its share of the funds.

We recommended that Social Services continue to work with the USDA and make its reconciliation of the backlog of overpayments a priority to expedite the distribution of the \$42.1 million in food stamp overpayment collections to the appropriate entities. Further, it should develop procedures to ensure that it promptly reconciles future overpayments. Additionally, Social Services should continue to monitor the counties' collection reports to ensure that counties are reporting accurate information.

***Social Services' Action: Partial corrective action taken.***

Social Services indicates that as of June 2010 all overpayment collections were recovered. The total overpayment collections changed from \$42.1 million to \$39.8 million due to adjustments and revisions. As for the interest that counties earned while holding these funds, Social Services indicated it collected and forwarded \$465,000 to the federal government and that it is working with counties to collect the remaining interest earnings. Social Services also reports implementing a process to ensure the quarterly reconciliations are done timely and accurately. Finally, during the IEVS reviews, Social Services indicates staff are reviewing the accuracy of counties' collection reports.

**Finding #6: Investigation and prosecution efforts vary by county.**

County size, demographics, and county department staffing necessitate different approaches to investigating and prosecuting welfare fraud. Although the counties appear to have similar criteria for investigations, their procedures for conducting investigations and their criteria for prosecution and imposing administrative sanctions vary. For example, the monetary thresholds below which the district attorney generally does not prosecute fraud varied among the counties we visited and were as high as \$10,000, depending on the type of offense. These variances may affect the number of cases referred and successfully prosecuted in each county. The data reported by counties statewide show variances in the number of referrals for prosecution of CalWORKs and food stamp fraud and in the outcomes of the prosecutions filed. It is in the best interest of Social Services to track these variances, as well as study the counties' prosecution practices to determine whether other counties could become more effective in their efforts by emulating the successful prosecution practices used elsewhere.

Finally, state regulations require counties to conduct administrative disqualification hearings for CalWORKs and food stamp fraud cases for which the facts do not warrant prosecution or cases that have been referred for prosecution and subsequently declined. However, many counties have stopped using the administrative disqualification hearing process, which Social Services attributes to county investigative staff believing that the administrative disqualification hearing standard of proof is higher than in criminal cases. Social Services told us that it has convened a workgroup with the State's

presiding administrative law judge to discuss county concerns and clarify the appropriate application of the administrative hearing process. Social Services plans to issue guidance to counties when the workgroup has completed its efforts.

We recommended that Social Services track how counties determine prosecution thresholds for welfare fraud cases and determine the effects of these thresholds on counties' decisions to investigate potential fraud, with a focus on determining best practices and cost-effective methods. We also recommended that Social Services either ensure that counties follow state regulations regarding the use of administrative disqualification hearings or pursue changing the regulations.

***Social Services' Action: Pending.***

Social Services did not address our recommendation to review the effect of counties' varying prosecution thresholds. Social Services indicates continuing to work on notices to remind the counties of their responsibility to use the administrative disqualification hearing process and to convene a workgroup on this issue. However, due to limited resources, Social Services reports these efforts have been delayed until mid-2011. Social Services reports taking no action on our recommendation to track and review the cost-effectiveness of the prosecution levels that counties use.

## State Mandates

### Operational and Structural Changes Have Yielded Limited Improvements in Expediting Processes and in Controlling Costs and Liabilities

REPORT NUMBER 2009-501, OCTOBER 2009

*Responses from the Commission on State Mandates and State Controller's Office as of October 2010; Department of Finance's response as of November 2009*

The California Constitution requires that whenever the Legislature or any state agency mandates a new program or higher level of service for a local entity, the State is required to provide funding to reimburse the associated costs, with certain exceptions. The Commission on State Mandates (Commission), the State Controller's Office (Controller), the Department of Finance (Finance), and local entities are the key participants in California's state mandate process. The Bureau of State Audits (bureau) examined the state mandates process under its authority to conduct both follow-up audits and those addressing areas of high risk. To follow up on our prior audits, we reviewed the status of the Commission's work backlogs and assessed how processing times had changed over the years. We also reviewed the Controller's efforts for using audits to identify and resolve problems in state mandate claims. Further, we evaluated how the State's mandate liability had changed from June 2004 to June 2008. Finally, we assessed the effect of recent structural changes on the state mandate process and summarized possible ways to accomplish the process more effectively.

#### **Finding #1: The Commission still has lengthy processing times and large backlogs.**

A test claim from a local entity begins the process for the Commission to determine whether a mandate exists. Although the Commission's test claim backlog dropped from 132 in December 2003 to 81 in June 2009, 61 test claims filed before December 2003 are still pending. In addition, between fiscal years 2003–04 and 2008–09, the Commission did not complete the entire process for any test claims within the time frame established in state law and regulations. In fact, during this period, the Commission's average elapsed time for completing the process was more than six years, and between fiscal years 2006–07 and 2008–09, the average time increased to more than eight years. Both the test claim backlog and the delays in processing create significant burdens on the State and on local entities. At the state level, these conditions keep the Legislature from knowing the true costs of mandates for years; as a result, the Legislature does not have the information it needs to take any necessary action. Additionally, as the years pass, claims build, adding to the State's growing liability.

In addition, the Commission has not addressed many incorrect reduction claims, which local entities file if they believe the Controller has improperly reduced their claims through a desk review or field audit. The Commission has only completed a limited number of these claims, and consequently its backlog grew from 77 in December 2003 to 146 in June 2009. The Commission's inability to resolve these claims

#### **Audit Highlights . . .**

*Our review of state mandate determination and payment processes found that:*

- » *The Commission on State Mandates (Commission) still has a large backlog of test claims, including many claims from 2003 or earlier.*
- » *The Commission's backlog of incorrect reduction claims has significantly increased and creates uncertainty about what constitutes a proper claim.*
- » *The high level of audit adjustments for some mandates indicates that the State could save money if the State Controller's Office filled 10 vacant audit positions.*
- » *The State's liability for state mandates has grown to \$2.6 billion in June 2008, largely because of insufficient funding.*
- » *Recent reforms that could relieve the Commission of some of its workload have rarely been used.*
- » *A number of state and local entities have proposed mandate reforms that merit further discussion.*

leaves local entities uncertain about what qualifies as reimbursable costs. Conversely, the Commission has processed most requests for amendments to state mandate guidelines, completing 61 of 70 requested amendments between January 2004 and June 2009. Nevertheless, it did not address an amendment submitted by the Controller in April 2006 that requests the incorporation of standardized language into the guidelines for 49 mandates determined before 2003. Commission staff said that pending litigation caused them to suspend work on the boilerplate request. Although the court's February 2009 decision is on appeal, Commission staff have scheduled 24 mandates for review in 2009 and 25 for review in early 2010.

We recommended that the Commission work with Finance to seek additional resources to reduce its backlog, including test claims and incorrect reduction claims. We also recommended that the Commission implement its work plan to address the Controller's amendment.

***Commission's Action: Partial corrective action taken.***

The Commission said that it did not file a budget change proposal seeking additional resources because Budget Letter 10-23 required departments to provide monetary reductions when submitting budget change proposals for fiscal year 2011-12. Related to the Controller's amendment request, the Commission says it has completed amendments for all 49 mandates, determined before 2003, that were included in the request.

**Finding #2: The Controller appropriately oversees mandate claims, but vacant audit positions, if filled, could further ensure that mandate reimbursements are appropriate.**

The Controller uses a risk-based system for selecting the state mandate claims for reimbursement that it will audit, has improved its process by auditing claims earlier than in the past, has sought guideline amendments to resolve identified claims issues, and has undertaken outreach activities to inform local entities about audit issues. Nevertheless, continuing high reduction rates, reflecting large audit adjustments for some mandates, indicate that filling vacant audit positions and giving a high priority to mandate audits could save money for the State. The Controller has reduced 47 percent of the cumulative dollars it has field-audited for all mandate audits initiated since fiscal year 2003-04, cutting about \$334 million in claims. Audit efforts were greatly aided by a 175 percent increase in audit staff positions in the Controller's Mandated Cost Audits Bureau (from 12 to 33) in fiscal year 2003-04. However, the Controller was not able to take as much advantage of an additional increase of 10 staff positions two years later, and has had 10 or more authorized field-audit positions unfilled since fiscal year 2005-06. Given the substantial amounts involved, filling these positions to maximize audits of mandate claims is important to better ensure that the State makes only appropriate reimbursements.

We recommended that to ensure it can meet its responsibilities, including a heightened focus on audits of state mandates, the Controller work with Finance to obtain sufficient resources and increase its efforts to fill vacant positions in its Mandated Cost Audits Bureau.

***Controller's Action: Partial corrective action taken.***

The Controller said it lost 11 positions and related spending authority effective June 30, 2010, but worked closely with Finance to restore 10 positions in the fiscal year 2010-11 budget. The Controller also stated that it is working on allocating General Fund resources to fill vacant positions.

**Finding #3: New mandate processes have been rarely used, and the State has done little to publicize these alternative processes.**

New processes intended to relieve the Commission of some of its work have rarely been used. One of these options allows Finance and the local entity that submitted the test claim to notify the Commission of their intent to pursue the jointly developed reasonable reimbursement methodology process (joint process), within 30 days of the Commission's recognition of a new mandate. In this process, Finance

and the local entity join to create a formula for reimbursement rather than basing it on detailed actual costs. Although Commission participation is not eliminated, the joint process greatly reduces the Commission's workload related to establishing a mandate's guidelines and adopting a statewide cost estimate. As of August 2009, the joint process had only been implemented once, and the legislatively determined mandate process, another new process, had not generated any new mandates. Additionally, the Commission can work with Finance, local entities, and others to develop a reimbursement formula for a mandate (Commission process) instead of adopting guidelines for claiming actual costs in the traditional way. Between 2005 and 2008, the Commission had to assure that reimbursement formulas following the Commission process considered the costs of 50 percent of all potential local entities, a standard Commission staff said was difficult to meet. Since the elimination of the 50 percent criterion, the Commission process has been used twice as of August 2009. One factor that may be contributing to the lack of success of the new and revised processes is the State's limited efforts to communicate them to local entities. In particular, we noted that as of July 2009 neither Finance nor the Commission had provided information on their Web sites publicizing the existence of the alternative processes.

We recommended that the Commission add additional information in its semiannual report to inform the Legislature about the status of mandates being developed under joint and Commission processes, including delays that may be occurring. We also recommended that the Commission and Finance inform local entities about alternative processes by making information about them readily available on their Web sites.

***Commission's Action: Corrective action taken.***

In September 2010 the governor approved Chapter 699, Statutes of 2010, requiring that the Commission's semiannual report to the Legislature include information on the status of mandates being developed under joint and Commission processes, and any related delays in their development. The Commission also added information about alternative processes to its Web site.

***Finance's Action: Corrective action taken.***

To provide information regarding reimbursable state mandates, including the processes for seeking a mandate determination, Finance added links on its Web site to the Commission's and Controller's Web sites.

**Finding #4: A recent court case overturned revised test claim decisions.**

In March 2009 a state court of appeal held that the Legislature's direction to the Commission to reconsider cases that were already final violates the separation of powers doctrine. The court stated that it did not imply that there is no way to obtain reconsideration of a Commission decision when the law has changed, but that the process for declaring reconsideration was beyond the scope of its opinion. In April 2009 an Assembly Budget Subcommittee recognized the importance of reforming the reconsideration process and, according to Commission staff, directed Finance, the Legislative Analyst, and Commission and legislative staff to form a working group to develop legislation to establish a mandate reconsideration process consistent with the court decision. Until a new reconsideration process is established, mandate guidelines may not reflect statutory or other relevant changes. Thus, the State could pay for mandate activities that are no longer required.

We recommended that the Commission continue its efforts to work with the legislative subcommittee and other relevant parties to establish a reconsideration process that will allow mandates to undergo revision when appropriate.

***Commission's Action: Corrective action taken.***

In October 2010 the governor approved Chapter 719, Statutes of 2010, authorizing the Commission to adopt new test claim decisions upon a showing that the State's Liability for a previously adopted decision has been modified on a subsequent change in law.

## Summary of Monetary Value Identified in Audit Reports Released From January 1, 2003, Through December 31, 2010

The following table shows approximately \$1.3 billion of monetary value associated with findings and recommendations we made in audits or investigations completed during the period January 1, 2003, through December 31, 2010. The table provides a brief description of the monetary values we found, such as potential cost recoveries, cost savings, increased revenues, lost revenues and funds wasted. Finally, many of the monetary values we have identified are not only one-time benefits, but could be realized each year for many years to come. This table reflects the cumulative impact of the monetary values identified.

**Table 1**  
**Monetary Values**  
**January 1, 2003, Through December 31, 2010**

AUDIT NUMBER/DATE RELEASED	AUDIT TITLE/BASIS OF MONETARY VALUE	MONETARY VALUE
<b>July 1, 2010, through December 31, 2010</b>		
2009-114 (July 2010)	<i>Department of General Services: It No Longer Strategically Sources Contracts and Has Not Assessed Their Impact on Small Businesses and Disabled Veteran Business Enterprises</i>	
	Cost Savings—The Department of General Services (General Services) should identify new strategic sourcing opportunities and maximize savings to the State for future purchases. The savings for the state is currently unknown, but if General Services implements our recommendation, the savings will be quantifiable in the future.	
2010-106 (November 2010)	<i>Dymally-Alatorre Bilingual Services Act: State Agencies Do Not Fully Comply With the Act, and Local Governments Could Do More to Address Their Clients' Needs</i>	\$47,000
	Cost Savings—Some state agencies are not maximizing opportunities to reduce their costs to provide bilingual services by leveraging California Multiple Award Schedules contracts for interpretation and translation services.	
<b>Annualized carry forward for July 1, 2010, through December 31, 2010</b>		<b>\$86,360,500</b>
2002-101 (July 2002)	California Department of Corrections	\$29,000,000
2002-009 (April 2003)	California Energy Markets	14,500,000
2002-118 (April 2003)	Department of Health Services	10,000,000
2003-106 (October 2003)	State Mandates	3,800,000
2003-125 (July 2004)	California Department of Corrections	10,350,000
2003-124 (August 2004)	Department of Health Services	2,300,000
I2004-2 (September 2004)	Department of Health Services	4,500
I2004-2 (September 2004)	Military Department	32,000
2004-105 (October 2004)	California Department of Corrections	145,000
I2005-1 (March 2005)	California Department of Corrections and Rehabilitation	59,500
2004-113 (July 2005)	Department of General Services	18,000
2004-134 (July 2005)	State Athletic Commission	16,500
2004-125 (August 2005)	Department of Health Services	5,150,000
I2005-2 (September 2005)	California Department of Corrections and Rehabilitation	96,500
I2006-1 (March 2006)	Department of Fish and Game	4,150,000
2007-037 (September 2007)	Department of Housing and Community Development	19,000
I2008-1 (April 2008)	California Department of Corrections and Rehabilitation	25,000
I2008-1 (April 2008)	Department of Social Services	6,500
2007-122 (June 2008)	Department of Health Care Services	6,500,000
2008-103 (November 2008)	California Unemployment Insurance Appeals Board	30,500

AUDIT NUMBER/DATE RELEASED	AUDIT TITLE/BASIS OF MONETARY VALUE	MONETARY VALUE
2009-043 (November 2009)	Board of Pilot Commissioners For the Bays of San Francisco, San Pablo and Suisun	15,000
2009-030 (July 2009)	California State Bar	142,500
Total for July 1, 2010, through December 31, 2010		\$86,407,500
July 1, 2009, through June 30, 2010		
2009-112 (May 2010)	<p><i>Department of Health Care Services: It Needs to Streamline Medi-Cal Treatment Authorizations and Respond to Authorization Requests Within Legal Time Limits</i></p> <p>Cost Avoidance—If the Department of Health Care Services performed cost-benefit analyses on treatment authorizations requests (TAR) with very low denial rates, it could ascertain which TAR's administrative costs equaled or exceeded its savings. By performing this analysis we estimate that it could save \$4,800,000 annually by identifying which TARs are not cost-effective to process and remove authorization requirements for these services.</p>	\$4,800,000
2010-108 (June 2010)	<p><i>Department of Public Health: It Reported Inaccurate Financial Information and Can Likely Increase Revenues for the State and Federal Health Facilities Citation Penalties Accounts</i></p> <p>Increased Revenue—The Department of Public Health (Public Health) inappropriately granted a 35 percent reduction to health facility penalties totaling \$70,000. This error was largely because the database that Public Health uses to calculate penalty reductions was not programmed to reflect the correct dates to calculate penalties. Also, Public Health could have generated \$95,000 if it had assessed interest on penalties stalled in the appeals process. It also could have increased revenue by \$3.3 million during the period of fiscal year 2003–04 through March 2010 if it had updated the monetary penalties amounts based on inflation rates. Finally, Public Health could have generated \$101,220 if it had included certain accounts in the Surplus Money Investment Fund as opposed to the Pooled Money Investment Account.</p>	3,566,000
12010-1 (June 2010) (Allegation I2008-1066)	<p><i>Department of Industrial Relations: Investigations of Improper Activities by State Employees</i></p> <p>Cost Recovery—An inspector at the Department of Industrial Relations, Division of Occupational Safety and Health misused state resources and improperly engaged in dual employment during her state work hours, for which she received \$70,105 in inappropriate payments</p>	70,000
12010-1 (June 2010) (Allegation I2008-0920)	<p><i>Department of Corrections and Rehabilitation: Investigations of Improper Activities by State Employees</i></p> <p>Wasted Funds—A supervisor at Heman G. Stark Correctional Facility misused the time of two psychiatric technicians by assigning them to perform the tasks of a lower-paid classification. This misuse of the employees' time resulted in a loss to the State of \$110,797.</p>	111,000
12010-1 (June 2010) (Allegation I2008-1037)	<p><i>California State University, Northridge: Investigations of Improper Activities by State Employees</i></p> <p>Cost Recovery—An employee of California State University, Northridge (Northridge), improperly allowed a business owner and associates to use a university laboratory facility, equipment, and supplies without compensating Northridge. After this investigation Northridge received payment of \$20,709 from the business owner.</p>	21,000
2009-030 (July 2009)	<p><i>California State Bar: It Can Do More to Manage Its Disciplinary System and Probation Processes Effectively and to Control Costs</i></p> <p>Lost Revenue/Increased Revenues—The State Bar has not updated the formula it uses to bill disciplined attorneys, although the discipline costs have increased thirty percent during the last five years. We estimate that if it had updated the billing formula, it could have billed an additional \$850,000 for the past three years. Additionally, if the State Bar updates the formula, we estimate that it could increase revenue in future years by approximately \$285,000 annually.</p>	850,000
2009-101 (November 2009)	<p><i>Department of Social Services: For the CalWORKs and Food Stamp Programs, It Lacks Assessments of Cost-Effectiveness and Misses Opportunities to Improve Counties' Antifraud Efforts</i></p> <p>Cost Recovery—Since December 2003 counties have received millions of dollars in overpayments recovered from food stamp recipients. However, the Department of Social Services (Social Services) has been delayed in taking the steps needed to claim its share of these overpayments—approximately \$12.45 million. As a result of the six-year delay in addressing this issue, we estimate Social Services lost approximately \$1.1 million in interest on its share of the funds.</p>	12,450,000
		1,100,000
12009-0702 (November 2009)	<p><i>Department of Corrections and Rehabilitation: Its Poor Internal Controls Allowed Facilities to Overpay Employees for Inmate Supervision</i></p> <p>Cost Recovery— We identified almost \$35,000 in overpayments made to 23 employees, and we recommended that the Department of Corrections and Rehabilitation recapture the overpayments from the employees. This is a one-time cost recovery for the state.</p>	35,000

AUDIT NUMBER/DATE RELEASED	AUDIT TITLE/BASIS OF MONETARY VALUE	MONETARY VALUE
2009-043 (November 2009)	<i>Board of Pilot Commissioners For the Bays of San Francisco, San Pablo and Suisun: It Needs to Develop Procedures and Controls Over Its Operations and Finances to Ensure That It Complies With Legal Requirements</i>	
	Increased Revenue—The Board of Pilot Commissioners (board) did not receive all revenues for the surcharge to fund training new pilots, as required by law. By collecting these fees, we calculated that the board will collect an additional \$8,640 annually based on the current surcharge of \$9 per trainee.	9,000
	Cost Savings— The board offers free parking to employees, which may constitute a misuse of state resources. By cancelling its lease for parking, the board will save the total value of the lease, \$4,760 over the course of a year. Additionally, if the board ceases reimbursing pilots for business-class airfare when they fly for training, we believe that it will incur a savings in the future. We believe these future savings will be approximately \$30,000 annually.	5,000
		30,000
<b>Annualized carry forward for July 1, 2009, through June 30, 2010</b>		<b>\$172,406,000</b>
2002-101 (July 2002)	California Department of Corrections	\$58,000,000
2002-009 (April 2003)	California Energy Markets	29,000,000
2002-118 (April 2003)	Department of Health Services	20,000,000
2003-106 (October 2003)	State Mandates	7,600,000
2003-125 (July 2004)	California Department of Corrections	20,700,000
2003-124 (August 2004)	Department of Health Services	4,600,000
I2004-2 (September 2004)	Department of Health Services	9,000
I2004-2 (September 2004)	Military Department	64,000
2004-105 (October 2004)	California Department of Corrections	290,000
I2005-1 (March 2005)	California Department of Corrections	119,000
2004-113 (July 2005)	Department of General Services	36,000
2004-134 (July 2005)	State Athletic Commission	33,000
2004-125 (August 2005)	Department of Health Services	10,300,000
I2005-2 (September 2005)	California Department of Corrections and Rehabilitation	193,000
I2006-1 (March 2006)	Department of Fish and Game	8,300,000
2007-037 (September 2007)	Department of Housing and Community Development	38,000
I2008-1 (April 2008)	California Department of Corrections and Rehabilitation	50,000
I2008-1 (April 2008)	Department of Social Services	13,000
2007-122 (June 2008)	Department of Health Care Services	13,000,000
2008-103 (November 2008)	California Unemployment Insurance Appeals Board	61,000
<b>Total for July 1, 2009, through June 30, 2010</b>		<b>\$195,453,000</b>
<b>July 1, 2008, through June 30, 2009</b>		
2007-040 (September 2008)	<i>Department of Public Health: Laboratory Field Services' Lack of Clinical Laboratory Oversight Places the Public at Risk</i>	\$1,020,000
	Increased Revenue—Net effect of Clinical Laboratory misstatement. If fee adjustments are properly made, this should be a one time monetary value.	
I2008-2 (October 2008) (Allegation I2006-0826)	<i>California Department of Corrections and Rehabilitation: Investigations of Improper Activities by State Employees</i>	17,000
	Cost Recovery—Recover improper payments that were made to employees for which they were not entitled. This is a one-time cost recovery for the state.	
I2008-2 (October 2008) (Allegation I2008-0678)	<i>California Environmental Protection Agency: Investigations of Improper Activities by State Employees</i>	23,000
	Cost Recovery—The California Environmental Protection Agency paid an employee for 768 hours for which she was not at work and for which no leave balance was charged or used.	
I2008-2 (October 2008) (Allegation I2007-1049)	<i>Department of Housing and Community Development: Investigations of Improper Activities by State Employees</i>	35,000
	Cost Recovery—Recover improper payments that were made to employees for which they were not entitled. This is a one-time cost recovery for the state.	

AUDIT NUMBER/DATE RELEASED	AUDIT TITLE/BASIS OF MONETARY VALUE	MONETARY VALUE
I2008-2 (October 2008) (Allegation I2007-0917)	<i>Department of Corrections and Rehabilitation: Investigations of Improper Activities by State Employees</i>	108,000
	Cost Recovery—Recover improper overtime payments that were made to employees at San Quentin State Prison for which they were not entitled. This is a one-time cost recovery for the state.	
I2008-2 (October 2008) (Allegation I2007-0771)	<i>State Personnel Board: Investigations of Improper Activities by State Employees</i>	14,000
	Wasted Funds—The State Personnel Board approved contracts with a retired annuitant without providing reasonable justification for the contract or the contract amount. Although three different contracts were entered into, the amount of the contracts either varied, or the amount of work was unspecified.	
2008-103 (November 2008)	<i>California Unemployment Insurance Appeals Board: Its Weak Policies and Practices Could Undermine Employment Opportunity and Lead to the Misuse of State Resources</i>	20,000
	Cost Savings—We identified parking spaces maintained by the Unemployment Insurance Appeals Board (board) for which the board had little assurance were being used for their intended and allowable purposes. In March 2009 the board eliminated 31 of its 35 parking spaces, which will save \$61,000 annually. We are showing a benefit of \$20,000 for the remainder of fiscal year 2008–09.	
I2009-1 (April 2009) (Allegation I2006-1125)	<i>Department of Fish and Game, Office of Spill Prevention and Response: Investigations of Improper Activities by State Employees</i>	72,000
	Cost Recovery—A high level official formerly with the Office of Spill Prevention and Response of the Department of Fish and Game incurred \$71,747 in improper travel expenses she was not entitled to receive. This is a one-time cost recovery to the state.	
I2009-1 (April 2009) (Allegation I2007-0909)	<i>State Compensation Insurance Fund: Investigations of Improper Activities by State Employees</i>	8,000
	Cost Recovery—An employee of the State Compensation Insurance Fund (State Fund) failed to report 427 hours of absences. Consequently, State Fund did not charge the employee's leave balances for these absences, and it paid her \$8,314 for hours she did not work. This is a one-time cost recovery to the state.	
I2009-1 (April 2009) (Allegation I2007-0891)	<i>Department of Corrections and Rehabilitation and Department of General Services: Investigations of Improper Activities by State Employees</i>	580,000
	Wasted Funds—The Departments of Corrections and Rehabilitation and General Services wasted \$580,000 in state funds by continuing to lease 5,900 square feet of office space that was left unoccupied for more than four years. This monetary value does not carry forward into future years.	
2009-042 (May 2009)	<i>Children's Hospital Program: Procedures for Awarding Grants Are Adequate, but Some Improvement Is Needed in Managing Grants and Complying With the Governor's Bond Accountability Program</i>	34,000
	Lost Revenue—We identified interest revenues totaling \$34,000 the California Health Financing Authority (authority) did not recover from grantees on advanced funds. The authority can recover a currently unidentifiable amount of revenue if it requires grantees to place future advances of funds in interest bearing accounts. The amount of future funds that will be advanced, as opposed to disbursed for reimbursement expenditures, as well as the associated interest earnings are not predictable.	
Annualized carry forward from prior fiscal years:		\$173,495,000
2002-101 (July 2002)	California Department of Corrections	58,000,000
2002-009 (April 2003)	California Energy Markets	29,000,000
2002-118 (April 2003)	Department of Health Services	20,000,000
2003-106 (October 2003)	State Mandates	7,600,000
2003-125 (July 2004)	California Department of Corrections	20,700,000
2003-124 (August 2004)	Department of Health Services	4,600,000
I2004-2 (September 2004)	Department of Health Services	9,000
I2004-2 (September 2004)	Military Department	64,000
2004-105 (October 2004)	California Department of Corrections	290,000
I2005-1 (March 2005)	California Department of Corrections and Rehabilitation	119,000
2004-113 (July 2005)	Department of General Services	1,186,000
2004-134 (July 2005)	State Athletic Commission	33,000

AUDIT NUMBER/DATE RELEASED	AUDIT TITLE/BASIS OF MONETARY VALUE	MONETARY VALUE
2004-125 (August 2005)	Department of Health Services	10,300,000
I2005-2 (September 2005)	California Department of Corrections and Rehabilitation	193,000
I2006-1 (March 2006)	Department of Fish and Game	8,300,000
2007-037 (September 2007)	Department of Housing and Community Development	38,000
I2008-1 (April 2008)	California Department of Corrections and Rehabilitation	50,000
I2008-1 (April 2008)	Department of Social Services	13,000
2007-122 (June 2008)	Department of Health Care Services	13,000,000
<b>Total for July 1, 2008, through June 30, 2009</b>		<b>\$175,426,000</b>
<b>July 1, 2007, through June 30, 2008</b>		
I2007-2 (September 2007) (Allegation I2006-1099)	<i>Department of Mental Health: Investigations of Improper Activities by State Employees</i>	\$19,000
	Wasted Funds—Misuse of state funds designated to purchase two law enforcement vehicles by using the vehicles for non-law enforcement purposes. This misuse resulted in a one-time loss to the state.	
2007-037 (September 2007)	<i>Department of Housing and Community Development: Awards of Housing Bond Funds Have Been Timely and Complied With the Law, but Monitoring of the Use of Funds Has Been Inconsistent</i>	38,000
	Lost Revenue—Excessive advances are provided without consideration for interest earnings the State could receive. Without corrective action, this loss could continue for the life of the program.	
I2007-2 (September 2007) (Allegation I2007-0715)	<i>California Highway Patrol: Investigations of Improper Activities by State Employees</i>	972,000
	Cost Avoidance—Purchase cost of \$881,565 for 51 vans it had not used for their intended purposes. We calculated that California Highway Patrol lost \$90,385 in interest because it bought the vans two years prior to when it needed them. This is a one-time loss to the state.	
2007-109 (November 2007)	<i>DNA Identification Fund: Improvements Are Needed in Reporting Fund Revenues and Assessing and Distributing DNA Penalties, but Counties and Courts We Reviewed Have Properly Collected Penalties and Transferred Revenues to the State</i>	32,000
	Increased Revenue—Counties did not always assess and collect all required DNA penalties.	
I2008-1 (April 2008) (Allegation I2006-0665)	<i>Department of Corrections and Rehabilitation: Investigations of Improper Activities by State Employees</i>	50,000
	Wasted Funds—Corrections leased 29 parking spaces at a private parking facility but did not use them. This is a one-time loss to the state.	
I2008-1 (April 2008) (Allegation I2006-1040)	<i>Department of Social Services: Investigations of Improper Activities by State Employees</i>	26,000
	Cost Recovery—Recover improper payments that were made to contractors. Cost Savings—The Department of Social Services will avoid these improper payments totaling about \$13,000 annually in the future.	
I2008-1 (April 2008) (Allegation I2007-0958)	<i>Department of Justice: Investigations of Improper Activities by State Employees</i>	18,000
	Cost Recovery—The Department of Justice paid compensation to five employees that they may not have earned over a nine-month period. This is a one-time cost recovery for the state.	
2007-122 (June 2008)	<i>Department of Health Care Services: Although Notified of Changes in Billing Requirements, Providers of Durable Medical Equipment Frequently Overcharge Medi-Cal</i>	13,000,000
	Cost Recovery—The Department of Health Care Services (department) has identified over billing to Medi-Cal by equipment providers. We estimated the department has overpaid providers by approximately \$13 million during the period from October 2006 through September 2007. This is a one-time cost recovery to the department if they collect all overpayments.	
	Cost Savings—If the department implements our recommendation to identify more feasible Medi-Cal reimbursement monitoring and enforcement, we estimate that it could continue to avoid \$13 million in overpayments annually.	
<b>Annualized carry forward from prior fiscal years:</b>		<b>\$147,044,000</b>
2002-101 (July 2002)	California Department of Corrections	\$43,500,000
2002-009 (April 2003)	California Energy Markets	29,000,000
2002-118 (April 2003)	Department of Health Services	20,000,000

AUDIT NUMBER/DATE RELEASED	AUDIT TITLE/BASIS OF MONETARY VALUE	MONETARY VALUE
2003-106 (October 2003)	State Mandates	7,600,000
2003-125 (July 2004)	California Department of Corrections	20,700,000
2003-124 (August 2004)	Department of Health Services	4,600,000
I2004-2 (September 2004)	Department of Health Services	9,000
I2004-2 (September 2004)	Military Department	64,000
2004-105 (October 2004)	California Department of Corrections	290,000
I2005-1 (March 2005)	California Department of Corrections and Rehabilitation	119,000
2004-113 (July 2005)	Department of General Services	2,336,000
2004-134 (July 2005)	State Athletic Commission	33,000
2004-125 (August 2005)	Department of Health Services	10,300,000
I2005-2 (September 2005)	California Department of Corrections and Rehabilitation	193,000
I2006-1 (March 2006)	Department of Fish and Game	8,300,000
<b>Total for July 1, 2007, through June 30, 2008</b>		<b>\$161,199,000</b>
<b>July 1, 2006, through June 30, 2007</b>		
I2006-2 (September 2006) (Allegation I2006-0663)	<i>Department of Forestry and Fire Protection: Investigations of Improper Activities by State Employees</i>  Cost Recovery—Between January 2004 and December 2005 an employee with the Department of Forestry and Fire Protection improperly claimed and received \$17,904 in wages for 672 hours he did not work in violation of state law.	\$18,000
2006-035 (February 2007)	<i>Department of Health Services: It Has Not Yet Fully Implemented Legislation Intended to Improve the Quality of Care in Skilled Nursing Facilities</i>  Cost Recovery—A contractor consultant authorized long-term care Medi-Cal duplicate payments. Health Services will recoup approximately \$5.3 million from facilities that received duplicate payments and an additional \$780,000 for duplicate or overlapping payments made to one or more different provider entities. Since authorization for the duplicate payments occurred because of a flawed procedure, the error may have caused other duplicate payments outside those we identified.	6,100,000
I2007-1(March 2007) (Allegation I2006-0945)	<i>California Exposition and State Fair: Investigations of Improper Activities by State Employees</i>  Cost Recovery—An official within the California Exposition and State Fair (Cal Expo) sold his personal vehicle to Cal Expo. Because he was involved in the decision to make this purchase while acting in his official capacity and because he derived a personal financial benefit, this official violated the Political Reform Act of 1974 and Section 1090 of the California Government Code. Cal Expo has indicated that it has reversed the transaction regarding the vehicle, resulting in the reimbursement of \$5,900 to Cal Expo and the return of the vehicle to the prior owner.	6,000
I2007-1(March 2007) (Allegation I2006-0731)	<i>Department of Health Care Services: Investigations of Improper Activities by State Employees</i>  Cost Recovery—An employee violated regulations covering travel expense reimbursements and payment of commuting expenses resulting in overpayments.	8,000
<b>Annualized carry forward from prior fiscal years:</b>		<b>\$148,464,000</b>
2001-128 (April 2002)	Enterprise Licensing Agreement	\$8,120,000
2002-101 (July 2002)	California Department of Corrections	29,000,000
2002-009 (April 2003)	California Energy Markets	29,000,000
2002-118 (April 2003)	Department of Health Services	20,000,000
2003-106 (October 2003)	State Mandates	7,600,000
2003-125 (July 2004)	California Department of Corrections	20,700,000
2003-124 (August 2004)	Department of Health Services	4,600,000
I2004-2 (September 2004)	Department of Health Services	9,000
I2004-2 (September 2004)	Military Department	64,000
2004-105 (October 2004)	California Department of Corrections	290,000
I2005-1 (March 2005)	California Department of Corrections and Rehabilitation	119,000
2004-033 (May 2005)	Pharmaceuticals	7,800,000*
2004-113 (July 2005)	Department of General Services	2,336,000†

AUDIT NUMBER/DATE RELEASED	AUDIT TITLE/BASIS OF MONETARY VALUE	MONETARY VALUE
2004-134 (July 2005)	State Athletic Commission	33,000
2004-125 (August 2005)	Department of Health Services	10,300,000
I2005-2 (September 2005)	California Department of Corrections and Rehabilitation	193,000
I2006-1 (March 2006)	Department of Fish and Game	8,300,000
<b>Total for July 1, 2006, through June 30, 2007</b>		<b>\$154,596,000</b>
<b>July 1, 2005, through June 30, 2006</b>		
2004-113 (July 2005)	<i>Department of General Services: Opportunities Exist Within the Office of Fleet Administration to Reduce Costs</i>	\$1,115,000
	Cost Savings/Avoidance—The Department of General Services (General Services) expects that the new, more competitive contracts it awarded for January 2006 through December 2008 should save the State about \$2.3 million each year. Cost savings reflect six months—January through June 2006.	
	Increased Revenue—General Services identified 49 parkers it was not previously charging. By charging these parkers, General Services will experience increased revenue totaling \$36,000 per year.	36,000
	Cost Recovery—General Services reports it has recovered or established a monthly payment plan to recover \$45,000 in previously unpaid parking fees. This is a one-time cost recovery for the state.	45,000
2004-134 (July 2005)	<i>State Athletic Commission: The Current Boxers' Pension Plan Benefits Only a Few and Is Poorly Administered</i>	33,000
	Increased Revenue—If the commission raises the ticket assessment to meet targeted pension contributions as required by law, we estimate it will collect an average of \$33,300 more per year.	
2004-125 (August 2005)	<i>Department of Health Services: Participation in the School-Based Medi-Cal Administrative Activities Program Has Increased, but School Districts Are Still Losing Millions Each Year in Federal Reimbursements</i>	10,300,000
	Increased Revenue—We estimate that California school districts would have received at least \$53 million more in fiscal year 2002–03 if all school districts had participated in the program and an additional \$4 million more if certain participating schools had fully used the program. A lack of program awareness was among the reasons school districts cited for not participating. By stepping up outreach, we believe more schools will participate in the program and revenues will continue to increase. However, because participation continued to increase between fiscal years 2002–03 and 2004–05, the incremental increase in revenue will be less than it was in fiscal year 2002–03. Taking into account this growth in participation and using a trend line to estimate the resulting growth in revenues, we estimate that revenues will increase by about \$10.3 million per year beginning in fiscal year 2005–06.	
2004-126 (August 2005)	<i>Off-Highway Motor Vehicle Recreation Program: The Lack of a Shared Vision and Questionable Use of Program Funds Limits Its Effectiveness</i>	226,000
	Cost Recovery—Of the \$566,000 in grant advances we identified as outstanding from Los Angeles County, the division reports receiving a \$226,000 refund and determining that the remaining \$340,000 was used in accordance with grant guidelines. This is a one-time cost recovery to the state.	
I2005-2 (September 2005) (Allegation I2004-0710)	<i>California Military Department: Investigations of Improper Activities by State Employees</i>	133,000
	Cost Recovery—A supervisor at the Military Department embezzled \$132,523 in public funds; a court has subsequently ordered restitution of these funds. This is a one-time cost recovery for the state.	
I2005-2 (September 2005) (Allegations I2004-0649, I2004-0681, I2004-0789)	<i>Department of Corrections: Investigations of Improper Activities by State Employees</i>	558,000
	Cost Recovery—The Department of Corrections and Rehabilitation (Corrections) failed to properly account for the time that employees used when released from their regular job duties to perform union-related activities. In addition to recovering past payments totaling \$365,500, Corrections can save \$192,500 annually by discontinuing this practice.	
I2006-1 (March 2006) (Allegation I2005-0781)	<i>Department of Corrections and Rehabilitation: Investigations of Improper Activities by State Employees</i>	70,000 <sup>‡</sup>
	Cost Recovery—The Department of Corrections and Rehabilitation failed to exercise its management controls, resulting in gifts of public funds of \$70,255 in leave not charged. This is a one-time cost recovery for the state.	

AUDIT NUMBER/DATE RELEASED	AUDIT TITLE/BASIS OF MONETARY VALUE	MONETARY VALUE
I2006-1(March 2006) (Allegations I2005-0810, I2005-0874, I2005-0929)	<i>Department of Forestry and Fire Protection: Investigations of Improper Activities by State Employees</i>	61,000
	Cost Recovery—Several employees of the Department of Forestry and Fire Protection received \$61,466 in improper overtime payments.	
I2006-1(March 2006) (Allegations I2004-0983, I2005-1013)	<i>Victim Compensation and Government Claims Board: Investigations of Improper Activities by State Employees</i>	26,000
	Cost Recovery—The Department of Corrections and Rehabilitation (Corrections) improperly awarded payments to a physician at Corrections totaling \$25,950.	
I2006-1 (March 2006) (Allegation I2004-1057)	<i>Department of Fish and Game: Investigations of Improper Activities by State Employees</i>	8,300,000
	Increased Revenue—The Department of Fish and Game allowed several state employees and volunteers to reside in state-owned homes without charging them rent, consequently providing gifts of public funds. A subsequent housing review conducted by the Department of Personnel Administration demonstrated that all 13 state departments that own employee housing may be underreporting or failing to report housing fringe benefits. As a result, the State could increase revenues as much as \$8.3 million by charging fair-market rents.	
2005-120 (April 2006)	<i>California Student Aid Commission: Changes in the Federal Family Education Loan Program, Questionable Decisions, and Inadequate Oversight Raise Doubts About the Financial Stability of the Student Loan Program</i>	45,000 <sup>\$</sup>
	Cost Savings/Avoidance—We recommended that the Student Aid Commission amend its operating agreement to require EDFUND to establish a travel policy that is consistent with the State's policy and that it closely monitor EDFUND expenses paid out of the Operating Fund for conferences, workshops, all-staff events, travel, and the like. By implementing policy changes as recommended, we estimate EDFUND could save a minimum of \$45,000 annually.	
<b>Annualized carry forward from prior fiscal years:</b>		<b>\$112,802,000</b>
2001-128 (April 2002)	Enterprise Licensing Agreement	\$8,120,000
2002-101 (July 2002)	California Department of Corrections	14,500,000
2002-009 (April 2003)	California Energy Markets	29,000,000
2002-118 (April 2003)	Department of Health Services	20,000,000
2003-106 (October 2003)	State Mandates	7,600,000
2003-125 (July 2004)	California Department of Corrections	20,700,000
2003-124 (August 2004)	Department of Health Services	4,600,000
I2004-2 (September 2004)	Department of Health Services	9,000
I2004-2 (September 2004)	Military Department	64,000
2004-105 (October 2004)	California Department of Corrections	290,000
I2005-1 (March 2005)	California Department of Corrections and Rehabilitation	119,000
2004-033 (May 2005)	Pharmaceuticals	7,800,000 <sup>II</sup>
<b>Total for July 1, 2005, through June 30, 2006</b>		<b>\$133,750,000</b>
<b>July 1, 2004, through June 30, 2005</b>		
2003-125 (July 2004)	<i>California Department of Corrections: More Expensive Hospital Services and Greater Use of Hospital Facilities Have Driven the Rapid Rise in Contract Payments for Inpatient and Outpatient Care</i>	
	Cost Savings—The potential for the Department of Corrections and Rehabilitation (Corrections) to achieve some level of annual savings appears significant if it could negotiate cost-based reimbursement terms, such as paying Medicare rates, in its contracts with hospitals. We estimated potential savings of at least \$20.7 million in Corrections' fiscal year 2002–03 inmate hospital costs. Specifically, had Corrections been able to negotiate contracts without its typical stop-loss provisions that are based on a percent discount from the hospitals' charges rather than costs, it might have achieved potential savings of up to \$9.3 million in inpatient hospital payments in fiscal year 2002–03 for the six hospitals we reviewed that had this provision. Additionally, had Corrections been able to pay hospitals the same rates as Medicare—which bases its rates on an estimate of hospital resources used and their associated costs—it might have achieved potential savings of \$4.6 million in emergency room and \$6.8 million in nonemergency room outpatient services at all hospitals in fiscal year 2002–03. Recognizing that Corrections will need some time to negotiate cost-based reimbursement contract terms, we estimate that it could begin to realize savings of \$20.7 million annually in fiscal year 2005–06.	

AUDIT NUMBER/DATE RELEASED	AUDIT TITLE/BASIS OF MONETARY VALUE	MONETARY VALUE
2003-124 (August 2004)	<i>Department of Health Services: Some of Its Policies and Practices Result in Higher State Costs for the Medical Therapy Program</i>	4,600,000
	Cost Savings—Represents the savings the Department of Health Services (Health Services) would have achieved in fiscal year 2002–03 had it paid only the amount specifically authorized by law for the Medical Therapy Program. Of the total, \$3.6 million relates to the full funding of county positions responsible for coordinating services provided by special education programs; \$774,000 relates to Health Services' method for sharing Medi-Cal payments with counties; and \$254,000 relates to Health Services' failure to identify all Medi-Cal payments made to certain counties. This monetary cost savings value will carry forward through fiscal year 2011–12.	
I2004-2 (September 2004) (Allegation I2002-0853)	<i>Department of Health Services: Investigations of Improper Activities by State Employees</i>	9,000
	Cost Savings—We found that managers and employees at the Department of Health Services' (Health Services) Medical Review Branch office in Southern California regularly used state vehicles for their personal use. We estimate Health Services could save an average of \$9,260 each year because its employees no longer use state vehicles for personal use.	
I2004-2 (September 2004) (Allegation I2002-1069)	<i>Military Department: Investigations of Improper Activities by State Employees</i>	64,000
	Cost Savings—We found that the California Military Department (Military) improperly granted employees an increase in pay they were not entitled to receive. Because Military has returned all the overpaid employees to their regular pay levels, it should be able to save approximately \$64,200 each year.	
2004-105 (October 2004)	<i>California Department of Corrections: Although Addressing Deficiencies in Its Employee Disciplinary Practices, the Department Can Improve Its Efforts</i>	290,000
	Cost Savings—The Department of Corrections could save as much as \$290,000 annually by using staff other than peace officers to fill its employment relations officer positions.	
I2005-1 (March 2005) (Allegation I2003-0834)	<i>Department of Corrections: Investigations of Improper Activities by State Employees</i>	357,000
	Cost Recovery/Cost Savings—In violation of state regulations and employee contract provisions, the Department of Corrections (Corrections) paid 25 nurses at four institutions nearly \$238,200 more than they were entitled to receive between July 1, 2001, and June 30, 2003. In addition to recovering past overpayments, Corrections can save \$119,000 annually by discontinuing this practice. Although Corrections now contends that the payments to 10 of the 25 nurses were appropriate, despite repeated requests, it has not provided us the evidence supporting its contention. Thus, we have not revised our original estimate.	
2005-030 (April 2005)	<i>State Bar of California: It Should Continue Strengthening Its Monitoring of Disciplinary Case Processing and Assess the Financial Benefits of Its New Collection Enforcement Authority</i>	24,000 <sup>#</sup>
	Cost Recovery—As a result of our recommendation that it prioritize its cost recovery efforts to focus on attorneys who owe substantial amounts, the State Bar sent demand letters to the top 100 disciplined attorneys and has received \$24,411 as of April 2006. This is a one-time cost recovery for the state.	
2004-033 (May 2005)	<i>Pharmaceuticals: State Departments That Purchase Prescription Drugs Can Further Refine Their Cost Savings Strategies</i>	5,100,000 <sup>**</sup>
	Cost Savings/Avoidance—In a prior audit, we had noted that opportunities existed for the Department of General Services (General Services) to increase the amount of purchases made under contract with drug companies, and we recommended in this audit that General Services continue its efforts to obtain more drug prices on contract by working with its contractor to negotiate new and renegotiate existing contracts with certain manufacturers. General Services reports that it has implemented contracts that it estimates will save the State \$5.1 million annually.	
	Cost Recovery—As we recommended, the Department of Health Services identified and corrected all of the drug claims it paid using an incorrect pricing method. It expects to recoup the nearly \$2.5 million in net overpayments that resulted from its error.	2,469,000
<b>Annualized carry forward from prior fiscal years:</b>		<b>\$64,720,000</b>
2001-128 (April 2002)	Enterprise Licensing Agreement	\$8,120,000
2002-009 (April 2003)	California Energy Markets	29,000,000
2002-118 (April 2003)	Department of Health Services	20,000,000
2003-106 (October 2003)	State Mandates	7,600,000
<b>Total for July 1, 2004, through June 30, 2005</b>		<b>\$77,633,000</b>

AUDIT NUMBER/DATE RELEASED		AUDIT TITLE/BASIS OF MONETARY VALUE	MONETARY VALUE
July 1, 2003, through June 30, 2004			
2002-121 (July 2003)	California Environmental Protection Agency: Insufficient Data Exists on the Number of Abandoned, Idled, or Underused Contaminated Properties, and Liability Concerns and Funding Constraints Can Impede Their Cleanup and Redevelopment		\$1,000,000
	Increased Revenue—The California Environmental Protection Agency received \$1 million in revenues after it applied for a one-time federal grant. This is a one-time increase in revenue for the state.		
2003-106 (October 2003)	State Mandates: The High Level of Questionable Costs Claimed Highlights the Need for Structural Reforms of the Process		
	Cost Savings—If the local entities we audited file corrected claims for the errors we identified, the State will save \$675,000 related to the Animal Adoption mandate.		675,000 <sup>††</sup>
	Cost Recovery— We recommended that the State Controller's Office (Controller's Office) audit Peace Officers Procedural Bill of Rights (POBOR) claims that had been paid. In 2010, the Controller's Office informed the State Auditor that it had audited \$225 million in Peace Officers Procedural Bill of Rights Program claims and found \$194 million (86 percent of claims reviewed) in unallowable costs had been claimed. This cost recovery benefit will be claimed in the fiscal year 2010–11 as a one-time benefit.		194,000,000 <sup>††</sup>
	Cost Savings—Additionally, the Controller's Office indicated that while implementing our recommendation to review POBOR claims, it calculated that the amounts claimed under this program have dropped substantially resulting in a realized cost savings to the state of \$53 million over a seven year period (fiscal years 2003–04 through 2010–11).		7,600,000 <sup>††</sup>
2003-102 (December 2003)	Water Quality Control Boards: Could Improve Their Administration of Water Quality Improvement Projects Funded by Enforcement Actions		301,000
	Increased Revenue—We identified 92 violations that require fine issuance and collection of the fines, and three fines that were issued but not collected. The State Water Resources Control Board could increase its revenue if it collected these fines.		
2003-117 (April 2004)	California Department of Corrections: It Needs to Ensure That All Medical Service Contracts It Enters Are in the State's Best Interest and All Medical Claims It Pays Are Valid		96,000
	Cost Recovery/Avoidance—Recovery of overpayments to providers for medical service charges in the amount of \$77,200 and the establishment of procedures to avoid lost discounts and prompt payment penalties totaling \$18,600.		
2003-138 (June 2004)	Department of Insurance: It Needs to Make Improvements in Handling Annual Assessments and Managing Market Conduct Examinations		7,000,000
	Increased Revenue—We estimate a one-time increase of revenue totaling \$7 million from the Department of Insurance's ability to make regulation changes that will result in capturing more specific data from insurers about the number of vehicles they insure. Future increases in revenue are undeterminable.		
Annualized carry forward from prior fiscal years:			\$57,177,000
2001-128 (April 2002)	Enterprise Licensing Agreement		\$8,120,000
2002-009 (April 2003)	California Energy Markets		29,000,000
2002-118 (April 2003)	Department of Health Services		20,057,000
Total for July 1, 2003, through June 30, 2004			\$267,849,000
January 1, 2003, through June 30, 2003			
2002-009 (April 2003)	California Energy Markets: The State's Position Has Improved, Due to Efforts by the Department of Water Resources and Other Factors, but Cost Issues and Legal Challenges Continue		29,000,000
	Cost Savings—In response to an audit recommendation, the Department of Water Resources (Water Resources) renegotiated certain energy contracts. Water Resources' consultant estimates that the present value of the potential cost savings due to contract renegotiation efforts as of December 31,2002, by Water Resources and power suppliers, when considering replacement power costs, to be \$580 million. For the purpose of this analysis, we have computed the average annual cost savings by dividing the \$580 million over the 20-year period the savings will be realized.		

AUDIT NUMBER/DATE RELEASED	AUDIT TITLE/BASIS OF MONETARY VALUE	MONETARY VALUE
2002-118 (April 2003)	<i>Department of Health Services: Its Efforts to Further Reduce Prescription Drug Costs Have Been Hindered by Its Inability to Hire More Pharmacists and Its Lack of Aggressiveness in Pursuing Available Cost-Saving Measures</i>	
	Cost Savings—For two drugs we found that the net costs of the brand names were higher than those of the generics because the Department of Health Services (Health Services) failed either to renegotiate the contract or to secure critical contract terms from the manufacturer—errors we estimated cost Medi-Cal roughly \$57,000 in 2002. Additionally, Health Services estimated that it could save \$20 million annually by placing the responsibility on the pharmacists to recover \$1 copayments they collect from each Medi-Cal beneficiary filling a prescription. We estimate the State could begin to receive these savings each year beginning in fiscal year 2003–04.	
<b>Total for January 1, 2003, through June 30, 2003</b>		<b>\$29,000,000</b>
<b>Total for January 1, 2003, through December 31, 2010</b>		<b>\$1,281,313,500</b>
<b>Benefits identified prior to 2003, but have annualized carry forward values</b>		
2001-128 (April 2002)	<i>Enterprise Licensing Agreement: The State Failed to Exercise Due Diligence When Contracting With Oracle, Potentially Costing Taxpayers Millions of Dollars</i>	
	Cost Savings—The State and Oracle agreed to rescind the contract in July 2002. As a result, we estimate the State will save \$8,120,000 per year for five years starting in fiscal year 2002–03.	
2002-101 (July 2002)	<i>California Department of Corrections: A Shortage of Correctional Officers, Along With Costly Labor Agreement Provisions, Raises Both Fiscal and Safety Concerns and Limits Management's Control</i>	
	Cost Savings—We estimate that the Department of Corrections and Rehabilitation (Corrections) could save \$58 million if it reduces overtime costs by filling unmet correctional officer needs. This estimate includes the \$42 million we identified in our November 2001 report (2001-108). Corrections stated in its six-month response to this audit that, following our recommendation to increase the number of correctional officer applicants, it has submitted a proposal to restructure its academy to allow two additional classes each year. This action could potentially allow Corrections to graduate several hundred more correctional officers each year, thereby potentially contributing to a reduction in its overtime costs. However, any savings from this action would be realized in future periods. We estimate that Corrections could realize savings of \$14.5 million beginning in fiscal year 2005–06, with savings increasing each year until reaching \$58 million in fiscal year 2008–09.	
<b>Totals for benefits identified prior to 2003, and that carry forward beyond an eight-year period</b>		
<b>Total for January 1, 2003, through December 31, 2010</b>		<b>\$1,281,313,500</b>

\* Based on our follow-up work (Report 2007-501), we will discontinue claiming \$7.8 million as of fiscal year 2007–08 because General Services two new pharmaceutical contracts will expire November 2007. (See related footnote below.)

† Based on our follow-up audit 2007-502, issued May 2007, we reduced General Services' expected \$3 million of cost savings we reported in 2005 to \$2.3 million of potential savings.

‡ This monetary value was previously listed at \$66,000. Additional audit work resulted in additional cost recovery of more than \$4,000 and based on updated information from the Department of Corrections and Rehabilitation, we eliminated the improper holiday accruals we reported in 2007.

§ We will discontinue claiming \$45,000 as of this fiscal year. Recent changes to state law may impact the role previously performed by the Student Aid Commission (commission). Senate Bill 89 (SB 89), an emergency measure enacted as Chapter 182, Statutes of 2007, and signed by the governor on August 24, 2007, took effect immediately, and may affect the ownership of EDFUND, and impact the commission's oversight role.

|| This monetary value was previously listed at \$5.1 million. However, according to General Services, its strategic sourcing contractor assisted it in negotiating two new pharmaceutical contracts for the period of November 2005 to November 2007 that General Services believed would result in increased savings to the State. Our follow-up report indicates that the State appears to have achieved savings of \$7.8 million during the first 10 months of these two new contracts. See report number 2007-501 (June 2007).

# This monetary value was previously listed as \$2,700. The State Bar reported that it has since received an increased amount of cost recovery.

\*\* This monetary value was not previously reported because General Services had not yet implemented the contracts resulting in this savings.

†† The total monetary value for this report was updated in the 2011 monetary values table based on additional follow-up information provided by the State Controller's Office.